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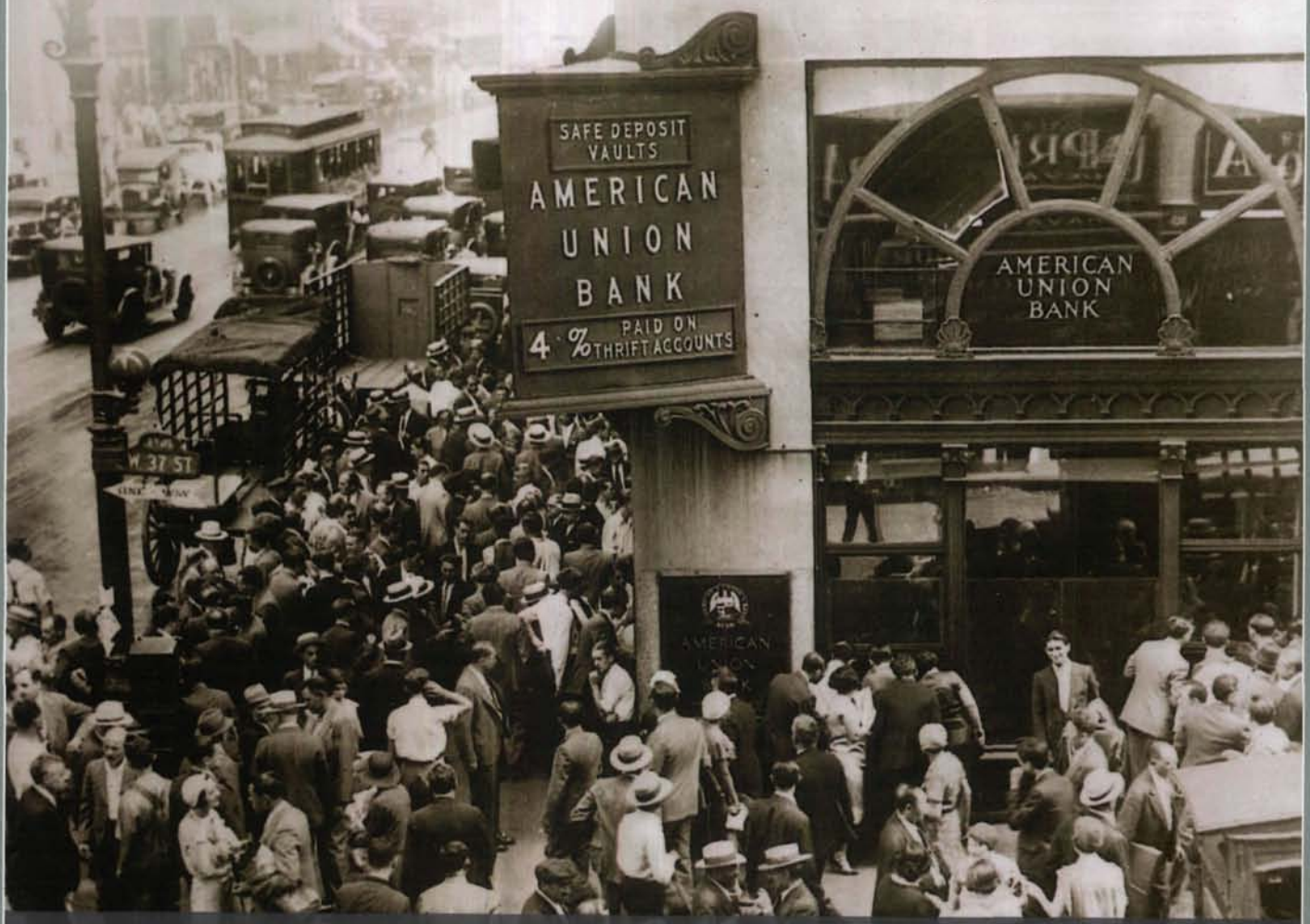
IDEAS ON LIBERTY

The Great Depression According to Milton Friedman

by Ivan Pongracic, Jr.



Mandated Health-Care Socialism

by John Seiler

The True Price of a Hybrid

by Paul Cwik

Involuntary Municipal Annexation: The Ugly Truth

by Barbara Hunter

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SEPTEMBER 2007

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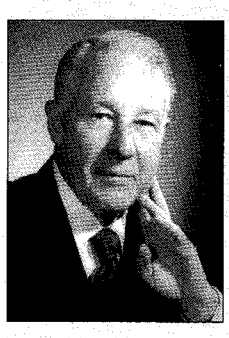

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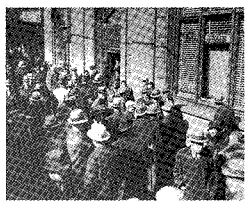

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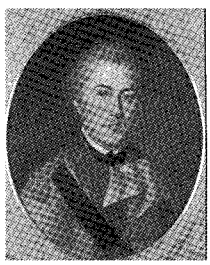

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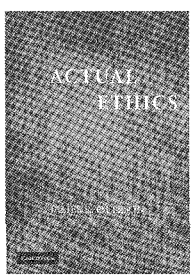

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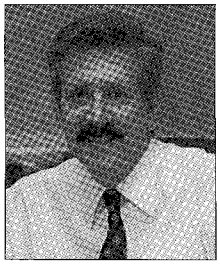
Menagerie of Happy Men: The Ancient Incas and the Bureaucratic State



BY RICHARD M. EBELING

Examples of bureaucratic control over social life seem to be as old as recorded history, and they always have features that are universal in their perverse effects regardless of time or place. The French economist and historian Louis Baudin described some of these consequences in his classic work, *A Socialist Empire: The Incas of Peru* (1927).

The Inca Empire emerged out of a small tribe in the Peruvian mountains in the twelfth and thirteenth centuries. The fourteenth and especially the fifteenth and early sixteenth centuries saw their expansion into a great imperial power with control over a territory that ran along the west coast of South America and included much of present-day Peru, Ecuador, Bolivia, Chile, and parts of Argentina and Colombia. The Incas were brought down in the 1530s by the Spanish conquest under the leadership of Francisco Pizarro.

The Incas ruled through a cruel and pervasive system of command and control over everyday life. Baudin explained:

> Every socialist system must rest upon a powerful bureaucratic administration. In the Inca Empire, as soon as a province was conquered, its population would be organized on a hierarchical basis, and the [imperial] officials would immediately set to work. . . . They were in general in charge of the preparation of the statistical tables, the requisitioning of the supplies and provisions needed by their group [over whom they ruled] (seeds, staple foods, wool, etc.), the distribution of the production of the products obtained, the solicitation of assistance and relief in case of need, the supervision of the conduct of their inferiors, and the rendering of complete reports and accounts to their superiors. These operations were facilitated by the fact that those under their supervision were obliged to admit them to their homes at any moment, and allow them to inspect everything in their homes, down to the cooking utensils, and even to eat with the doors open. . . .

The Inca bureaucracy cast its net over all those that it ruled and soon transformed them into docile and obedient subjects through a "slow and gradual absorption of the individual into the state . . . until it brought about the loss of personality. Man was made for the state, and not the state for the man," Baudin said. The Incas tried to banish "the two great causes of popular disaffection, *poverty* and *idleness*. . . . But by the same token, they dried up the two springs of progress, *initiative* and *provident concern for the future*." The Inca government did all the thinking and planning for their subjects, with the result that there was a "stagnation of commerce . . . lack of vitality and the absence of originality in the arts, dogmatism in science, and the rareness of even the simplest inventions."

This inertia was fostered through the institutions of the welfare state. "As for the provident concern for the future," Baudin asked, "how could that have been developed among a people whose public granaries were crammed with provisions and whose public officials were authorized to distribute them in case of need? There was never a need to think beyond the necessities of the moment."

In addition, the Inca welfare state undermined the motive for charity and any personal sense of responsibility for family or community:

> But what is even more serious is that the substitution of the state for the individual in the economic domain destroyed the spirit of charity. The native Peruvian, expecting the state to do everything, no longer had to concern himself with his fellow man and had to come to his aid only if required by law.

Richard Ebeling (rebeling@fee.org) is the president of FEE.

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> The members of a community were compelled to work on the land for the benefit of those who were incapacitated; but when this task had been performed, they were free from all further obligation. They had to help their neighbors if ordered to do so by their chiefs, but they were obliged to do nothing on their own initiative. That is why, by the time of the Spanish conquest, the most elementary humanitarian feelings were in danger of disappearing entirely.

Life was also reduced to a joyless existence of uniformity, security, and order that was imposed and guaranteed by the Inca bureaucracy. Baudin tried to answer the question: Was the average person happy under the rule of the Incan kings?

> He labored contently for a master whom he held to be divine. He had only to obey, without going to the trouble of thinking. If his horizon was limited, he was unaware of it, since he knew no other; and if he could not raise himself socially, he in no way suffered on that account, for he did not conceive that such a rise was possible. His life followed its peaceful course, its monotony broken by periodic holiday festivals and by such events as marriages, military service, and compulsory labor service, all in strict accordance with regulations. The Indian had his joys and sorrows at fixed dates. Only illness and death persisted in escaping government regulation. It was a negative kind of happiness, with a few adversities and a few great joys. The empire produced what D'Argenson called the "menagerie of happy men". . . . In the Inca state only the members of the ruling class and more especially the chief, could live a full life; outside of him and his family, men were no longer men, but cogs in the economic machine or figures in the official statistics.

Life was reduced to a joyless existence of uniformity, security, and order.

In our own time the plague of bureaucracy has been no different. Those who man the bureaucratic agencies supervise and oversee many, if not most, of our economic affairs from the processes of production to the stage at which we actually use the goods that are manufactured. They pry into and then proceed to regulate our personal and family affairs. They take responsibility for our welfare and our happiness, and try to guard us against all the trials and tribulations of everyday life. They watch over our schooling, care for us when we are ill, find work for us if we are unemployed, and pay us when we are without a job. They are concerned with our mental health, and police what we ingest. They take an interest in the things we read and the amusements and leisure activities we indulge in.

Our Freedom Weakened

One freedom after another has been incrementally abridged, weakened, and then taken away with the bureaucracy now responsible for what had previously been in the domain of the individual. But in this, too, the process has been no different from what occurred under the Incas. Louis Baudin pointed out that "The poison [of growing bureaucratic paternalism] was not given to the Indians in massive doses that would have provoked a reaction, but was administered drop by drop, until it brought about the loss of personality. . . . And whoever has formed the habit of passive obedience ends by being no longer able to act for himself and comes to love the yoke that is laid upon him. Nothing is easier than to obey a master who is perhaps exacting, but who rules over all the details of life, assures one's daily bread, and makes it possible to banish all concern from the mind."

In fact, the human spirit is not as easily and permanently broken as the Incas believed they had succeeded in doing in their empire centuries ago. There is something also inside the individual that cherishes self-expression and retains the wish to be free. This inner force, if awakened, assures that liberty will never be completely extinguished.

In my October 2005 column, "When the Supreme Court Stopped Economic Fascism in America," I remarked in passing that "Much of the urban youth of America were rounded up and sent off to national forests for regimentation and mock military-style drilling as part of the Civilian Conservation Corps (CCC)." A reader has reminded me that young men participated voluntarily and were not compelled to join, as my phrasing suggested.

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Perspective

We Win One (So Far)

May the government declare a U.S. resident an "enemy combatant," throw him in a military prison indefinitely, and never charge him with a crime—all without judicial review?

The Bush administration says yes. But in a key ruling in June, the same week as the 792nd anniversary of Magna Carta, a three-judge panel of the U.S. Fourth Circuit Court of Appeals resoundingly said no. If it withstands further appeal, the decision will be a timely affirmation of the limits of executive power and the constitutional priority of civilian over military rule.

The government alleges that Ali Saleh Kahlah al-Marri, a married graduate student at Bradley University in Peoria, Ill., and a citizen of Qatar (a country with which the administration is not at war), is an al Qaeda "sleeper agent" who volunteered for a "martyr mission" in the United States. He was initially charged with criminal possession of credit-card numbers and making false statements to the FBI and on bank forms. But when he asked the court to suppress evidence on grounds he was tortured, the administration moved to dismiss the charges, declared him an "enemy combatant," and put him in a naval brig in South Carolina.

That, the appeals court says, is illegal and unconstitutional. "Even assuming the truth of the Government's allegations, the President lacks power to order the military to seize and indefinitely detain al-Marri," Judge Diana Gribbon Motz wrote in the 2–1 majority opinion. "If the Government accurately describes al-Marri's conduct, he has committed grave crimes. But we have found no authority for holding that the evidence offered by the Government affords a basis for treating al-Marri as an enemy combatant, or as anything *other than a civilian*" (emphasis added). Judge Motz cites precedents dating back to the nineteenth century affirming that all U.S. residents, citizens and noncitizens, have rights, especially due-process rights, recognized by the Constitution.

The decision is important because the Military Commissions Act, passed last year, purported to abolish habeas corpus for "aliens." The court said, however, that this provision applies not to civilians living in the United States, but only to detainees at Guantanamo Bay, Cuba,

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who were apprehended in Afghanistan and other foreign locations. The court said, "Congress sought . . . to preserve the rights of aliens like al-Marri, lawfully residing within the country with substantial, voluntary connections to the United States, for whom Congress recognized that the Constitution protected the writ of habeas corpus." As the court noted, the "enemy combatant" declaration "does not assert that al-Marri: (1) is a citizen, or affiliate of the armed forces, of any nation at war with the United States; (2) was seized on or near a battlefield on which the armed forces of the United States or its allies were engaged in combat; (3) was ever in Afghanistan during the armed conflict between the United States and the Taliban there; or (4) directly participated in any hostilities against United States or allied armed forces."

Thus al-Marri can't be an enemy combatant, and the Bush administration has no constitutional or statutory power to declare him one. That is no small matter.

"This does not mean that al-Marri must be set free," Judge Motz continued. "Like others accused of terrorist activity in this country, from the Oklahoma City bombers to the surviving conspirator of the September 11th attacks, al-Marri can be returned to civilian prosecutors, tried on criminal charges, and, if convicted, punished severely.

"But the Government cannot subject al-Marri to indefinite military detention. For in the United States, the military cannot seize and imprison civilians—let alone imprison them indefinitely. . . . To sanction such presidential authority to order the military to seize and indefinitely detain civilians, even if the president calls them 'enemy combatants,' would have disastrous consequences for the Constitution—and the country."

The importance of the centuries-old, hard-won principle of habeas corpus as a bulwark against tyranny cannot be exaggerated—for what good is a bill of rights if those whom the government imprisons may not publicly contest their detention?

Some find it tempting to relax the traditional protections of the accused in "exceptional" cases. But it's worth reminding ourselves that preventing tyranny requires us to resist that temptation—*especially* in such cases.

★ ★ ★

A top American pastime is bemoaning the price of medical care and insurance. (Michael Moore now has joined in with *Sicko*.) Maybe they would be cheaper if we didn't have to buy coverage we don't want for things we won't need. John Seiler sheds light on the mandated-coverage scandal.

Is buying a hybrid car economical? If you don't understand the price system, you might think so. Paul Cwik has the lowdown.

In some states city governments have the legal power to annex your property beyond city limits and make you a taxpayer—without your consent! Can this really happen in America? Barbara Hunter says it can and does.

The late Milton Friedman (along with his coauthor Anna Schwartz) did something remarkable in his long career as an empirical investigator: he turned the economics profession upside down with his explanation of what caused the Great Depression. Ivan Pongracic, Jr. explains this phenomenal achievement.

If you think "political correctness" in education has been a problem, you haven't seen anything yet. Introducing: cultural competence. Wendy McElroy has the harrowing details.

Early American history is filled with colorful characters, some of whom forgot what America was supposed to be about. Becky Akers has the story of one: Henry "Light-Horse Harry" Lee.

In this month's columns, Richard Ebeling compares the Inca welfare state to our own. Donald Boudreaux explodes a false analogy regarding immigration. Stephen Davies ponders political labels. David Henderson looks at today's living standards. And Jude Blanchette, seeing a *New York Times* columnist claim that the market can't produce enough "human capital," objects, "It Just Ain't So!"

Our reviewers have been poring over books about Stalin's prison camps, welfare, ethics, and organized labor's racial record.

—*Sheldon Richman*
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Government Is Better than the Market at Producing Human Capital? It Just Ain't So!

BY JUDE BLANCHETTE

Invoking the Founding Fathers is always risky. We typically use the term as an amalgamation, as in "the Founders believed X." But as a reading of even one semi-serious history of the American founding will show, their beliefs were divergent and contentious.

Many libertarians employ the term "Founders" as if to provide a degree of respectability to ideas that seem increasingly out of date (at least to the public at large). A recent *New York Times* column by David Brooks, however, helps clarify that not all the Founders were created equal.

Brooks sees four schools of political economy in America today: 1) the limited-government conservatives and libertarians, who want to leave everything to the market; 2) mainstream liberals, who want to tinker with the market to dampen its creative destruction; 3) the populists, who want to rewrite the rules of the global trading order to tilt the balance toward the poor; and 4) the Hamiltonians, Brooks's group, "who believe in free market capitalism but think government should help people get the tools they need to compete in it."

While Brooks attempts to distinguish four schools, only two actually exist, consisting of those who see a vast pool of resources that government can control with the help of intellectuals and those who see societies as groupings of individuals over whom no one should exert control.

One thing is certain: Brooks comes straight from the Hamiltonian mold. Alexander Hamilton's original economic plan, presented to Congress in 1790 and 1791, was a model of centralization, and it set the stage for future federal intervention. By suggesting that the national government assume the debts of the states, Hamilton helped build its dominance. As secretary of the treasury he commanded a staff of more than a thousand and was known for his involvement in even the most minute details of the department. Hamilton was a personification of Adam Smith's "men of system."

Sadly, Brooks's Hamiltonian faith in government string-pulling is in this spirit. In his recent op-ed "Reviving the Hamilton Agenda" and his previous appeals to National-Greatness Conservatism, Brooks has itemized a list of state undertakings that rapidly approach infinity. What the measures he endorses in the op-ed all have in common is their objective of empowering government to "help people compete."

It's fairly easy to understand Brooks's intuition here. The government has resources (never mind where they come from) and people need skills. Put the two together and you have a system designed to turn out a highly trained, globally competitive workforce. It's a wonderful idea, except for its utter flouting of theory and history.

Many who read this magazine put on their Public Choice glasses when they see a new policy offered. Instead of thinking about the rosy outcome that will theoretically occur, they ask themselves a series of questions. By the time the policy proposal travels from the politicians' (or intellectuals') lips to passage by Congress, what are the odds that it will look anything like the original or still serve its stated goal? What perverse incentives will the government agency that enforces this policy face? Is there any organization or powerful lobby that will get a bite at the apple before or during the policy's enactment?

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While these questions don't usually endear a libertarian to the more sentimental and optimistic among us, they do often keep us from signing on to childish fantasies that would require the U.S. government to act like a responsible and reasonable agency of positive change.

On the two large priorities the Hamiltonian Brooks sets, however—increasing economic dynamism and human capital—it's hard for any reasonable individual to disagree. The problem is with his solutions. On the former, Brooks acknowledges that our behemoth Social Security and Medicare systems are liabilities. For Social Security he recommends raising the retirement age, which I hope he recognizes is a Band-Aid fix at best, and for Medicare his answer is opaque and thus utterly meaningless: "tackl[e] medical inflation to make Medicare affordable."

As for his other priority, he writes, "No one policy can increase the quality of human capital, but a lifelong portfolio of policies can make a difference." Among the policies he advocates are:

- Child tax credits
- Income support for young men
- Visits by nurses to single-family homes
- Preschool to help boost self-confidence
- Merit pay for teachers and a tweaking of certification
- Mentoring of teenagers by senior citizens
- Forced national service for young adults
- Government funding for science and math

Where government has engaged in these activities, it has failed. This is aside from the coercion necessary—forced national servitude?—for the state to carry them out.

Why doesn't Brooks leave the market alone to handle both dynamism and human capital? His only answer is this: "We Hamiltonians disagree with the limited government conservatives because, on its own, the market is failing to supply enough human capital. Despite all the incentives, 30 percent of kids drop out of high school and the college graduation rate has been flat for a generation."

The upcoming 2008 edition of the *Statistical Abstract of the United States* shows that only 11 percent of elementary and high-school students are enrolled in private schools and an estimated 2.2 percent of students are homeschooled. The vast majority of students are products of government schools. I don't know about you, but if I were to place the blame for high dropout rates and a generally inadequate student population, I would look first to the government's schools. (As an aside, the "dropout" rate is misnamed, Alan Reynolds writes, because it includes many immigrants who never attended schools in the United States and hence could not have dropped out.)

College Graduation

The flat college-graduation rate is likely related to the poor performance of government's elementary and secondary schools, which do a bad job of preparing students for college. That's why so many students take high-school-level courses in their freshman year. A related explanation is the booming enrollment rate. The government encourages virtually everyone to go to college, and makes money and loans available for that purpose. The U.S. Department of Education says, "Enrollment in degree-granting institutions increased by 17 percent between 1984 and 1994. Between 1994 and 2004, enrollment increased at a faster rate (21 percent), from 14.3 million to 17.3 million." If more students are starting college only because government lowers the cost, then it's not surprising that the graduation rate has not picked up.

Brooks is right that human capital—skills and knowledge—helps individuals to perform in the global marketplace. But that marketplace is constantly changing, and it's hard to imagine government establishing training programs that could adequately keep up with the dynamic nature of world commerce.

Does this mean we just throw up our hands in defeat? Certainly not. Indeed, the companies that look to tap into the extraordinary productivity levels of American workers won't let that happen. From the funding of higher education to the expansive network of job training, those who profit from America's relatively stable legal environment, talented workforce, and deep stock of capital pump billions of dollars into developing human capital. For the "men of system," however, the "unplanned" nature of private-sector investments in human capital is too chaotic. Hence, Brooks's Hamiltonian revival.

We need less Hamilton and more Jefferson.

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Mandated Health-Care Socialism

BY JOHN SEILER

Call it mandated health-care socialism. Those favoring complete government control of medical care in America know their dreams can't come true right away. The demise of the Clinton scheme in 1993 showed that. So advocates of socialized medicine are applying the death of a thousand scalpel cuts to what remains of private-sector medical care. Two methods are being used: mandated coverage and mandated benefits.

So far only Hawaii and Massachusetts have mandated coverage supposedly for every state resident, while Tennessee has had a nonmandated "universal coverage plan" since 1994. Hawaii's mandate began in 1974. Not surprisingly, the government mandate distorted the market. The law applies only to employees working more than 20 hours a week. The result: Today 10 percent of residents still are not covered under "universal" coverage, according to a 2006 study of health-insurance mandates by Michael Tanner of the Cato Institute.

Meanwhile, doctors are fleeing the islands. Smaller medical providers lack the financial resources to deal with the expense, red tape, and unpredictability of the most socialized medicine scheme in any of the 50 states.

In April 2006 then-Massachusetts Gov. Mitt Romney, now a Republican candidate for president, signed his state's universal-coverage bill. A previous socialized-medicine scheme in the Bay State was pushed into law in 1988 by Gov. Michael Dukakis, a Democrat, as part of his "Massachusetts miracle." During a three-year phase-in, costs rose so high that the program was shelved by the legislature.

Romney's new law caused problems even before it went into effect on July 1, when everyone had to have coverage or pay a "fee," really a new tax. "Early bids suggest the soon-to-be compulsory insurance policies that will pass muster under the scheme will be expensive, starting at a whopping $380 per month, or $4,560 a year, for an individual," a January 23, 2007, *Wall Street Journal* editorial noted. "That's hardly surprising when you look at costs in other states that overregulate their insurance markets, such as New York."

In April 2006 then-Massachusetts Gov. Mitt Romney, now a Republican candidate for president, signed his state's universal-coverage bill.

Now the new Massachusetts contagion has spread to California, whose governor, Republican Arnold Schwarzenegger, is an in-law of longtime socialized-medicine and mandated-insurance-benefit advocate Sen. Edward M. Kennedy, a Massachusetts Democrat. Schwarzenegger's plan is similar to Romney's.

It's not clear yet how far Schwarzenegger will be able to push his proposal. If state courts rule that his "fee" increases really are taxes, then a two-thirds vote in the legislature will be required for passage. In that case, the legislature's GOP minority, whom the governor has shunned and taken for granted, would have the power to play spoiler.

However, a poll released last January by the Public Policy Institute of California found that 71 percent of state residents support the governor's proposal, with

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only 23 percent opposed. (Six percent don't know.) Even 55 percent of Republicans favored the proposal, with 39 percent opposed.

So it's likely some sort of mandated health care will be passed, although probably not as comprehensive or expensive as the governor proposed.

This has national importance because, for better or worse, California is a major incubator of ideas, from surf music to environmental policy.

A final factor in mandated coverage is that the Massachusetts and California schemes may violate a 1974 federal law, the Employee Retirement Income Security Act (ERISA), which was designed to standardize medical and retirement coverage across state lines. (After the U.S. Supreme Court upheld a challenge to the Hawaii plan under ERISA in 1983, it was exempted by Congress and President Reagan.)

Last July U.S. District Judge Frederick J. Motz cited ERISA in throwing out the so-called "Wal-Mart Law" passed in Maryland. The law mandated that any company with more than 10,000 employees must spend at least 8 percent of the payroll on health-care benefits. Motz wrote, "The Act violates Erisa's fundamental purpose of permitting multi-state employers to maintain nationwide health and welfare plans, providing uniform nationwide benefits and permitting uniform national administration." The ruling was upheld on appeal.

The *Wall Street Journal* editorialized that the ruling "could spell trouble for the California and Massachusetts schemes."

TennCare, another experiment in medical socialism, was different from the other systems because it didn't have a mandate. Nevertheless, it also proved to be an expensive disaster. In 1994 then-Vice President Al Gore, a Tennessee native, convinced the state's Democratic governor, Ned McWherter, to implement a portion of the Clinton plan at the state level. The hope was that it would prove so successful that other states would adopt it and then the plan could make a comeback at the national level.

TennCare, explains the entry in Wikipedia, "was designed to expand health insurance to the uninsured through the state's Medicaid program by utilizing managed care." Centralization was supposed to reduce costs, with "free" money from the federal government picking up any financial slack.

But predictably, many companies stopped providing medical insurance, forcing employees to sign up with TennCare. "In short order, one quarter of the state's population was on TennCare," Patrick Poole wrote on AmericanThinker.com last January. TennCare "has forced dozens of hospitals out of business, pushed thousands of doctors and other health care professionals out of the state, destroyed any semblance of competitive health insurance market, and nearly drove the state government into bankruptcy."

There was one good result of imposing TennCare. When costs soared so high that in 2000 the state legislature was about to pass the first Tennessee income tax—with a 5 percent top rate—thousands of irate citizens marched on Nashville and forced the politicians to abandon the tax. Several legislators, upset at actually hearing their constituents' views, were carted off to emergency wards. Citizens held up signs reading, "Carry them all to the ER!"

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Mandated Benefits

A less obvious path to socialized medicine is mandated *benefits*, which require insurance providers to cover everything from athletic trainers in Arkansas to breast reduction in Maine. With mandated *coverage*, however bad a scheme is, people notice that a mammoth new bureaucracy and tax increases have been

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imposed. But with mandated *benefits*, the state or federal legislature simply passes a law requiring medical insurance to include coverage for a particular ailment. Except for the special interests that benefit monetarily, few people even know what's going on.

"Mandated coverage is a dagger to the heart of the private health care system," says Grace-Marie Turner, president of the Galen Institute, which advocates free-market medical reforms. "But coverage mandates are slow poison."

Currently, the federal government only mandates coverage for prenatal care and two nights in the hospital for new mothers. The real action is at the state level, where the number of mandates has risen from seven in 1965 to 1,843 as of 2006, according to a March 2006 study by the Council for Affordable Health Insurance (CAHI), an insurance-carrier group that favors market solutions. Turner said health-care mandates are like requiring that everyone drive a fully loaded Lexus, while prohibiting anyone from purchasing a Ford, Chevy, or Honda. Even if someone wants medical insurance without the mandates, that option is not available, leading to some people not having any insurance.

According to CAHI, the states with the most mandates are Minnesota—62—and Maryland—59. The fewest mandates are 13 in Idaho and 17 in the District of Columbia. The average is 36.

Here are some of the mandates the 50 states and District of Columbia have imposed, followed by the number of states. Unless indicated otherwise, the added cost to insurance is less than 1 percent:

Benefits mandates:

- Alcoholism, 45 states (1 percent to 3 percent added cost)
- Alzheimer's, 2 states
- Ambulance services, 8 states
- Breast reconstruction, 48 states
- Chlamydia, 3 states
- Cleft palate, 14 states
- Contraceptives, 30 states (1 percent to 3 percent added cost)
- Dental anesthesia, 29 states
- Diabetic supplies, 47 states
- Drug-abuse treatment, 34 states
- In vitro fertilization, 14 states (3 percent to 5 percent added cost)
- Mental health general, 40 states (1 percent to 3 percent added cost)
- Mental-health parity, 42 states (5 percent to 10 percent added cost)
- Newborn hearing screening, 16 states
- Newborn sickle-cell testing, 3 states
- Off-label drug use, 37 states
- Port-wine stain (a skin discoloration) elimination, 2 states
- Prescription drugs, 3 states (5 percent to 10 percent added cost)
- Prostate screening, 32 states
- Second surgical opinion, 9 states
- Well-child care, 31 states (1 percent to 3 percent added cost)

Provider mandates:

- Acupuncturists, 11 states (1 percent to 3 percent added cost)
- Chiropractors, 46 states (1 percent to 3 percent added cost)
- Dentists, 36 states (3 percent to 5 percent added cost)
- Dieticians, 3 states
- Marriage therapists, 13 states
- Massage therapists, 5 states
- Naturopaths, 3 states
- Osteopaths, 21 states (1 percent to 3 percent added cost)
- Physical therapists, 16 states (1 percent to 3 percent added cost)
- Podiatrists, 35 states
- Psychiatric nurses, 16 states
- Psychologists, 44 states (1 percent to 3 percent added cost)
- Social workers, 27 states (1 percent to 3 percent added cost)
- Speech or hearing therapists, 18 states

Covered-persons mandates:

- Adopted children, 42 states
- Conversion to nongroup insurance, 42 states (1 percent to 3 percent added cost)

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- Dependent students, 12 states
- Handicapped dependents, 39 states (1 percent to 3 percent added cost)
- Newborns, 51 states (1 percent to 3 percent added cost)
- Noncustodial children, 10 states
- Domestic partners, 2 states

Some other mandates not yet prevalent nationwide are: the aforementioned athletic trainers in Arkansas and breast reduction in Maine, smoking cessation in Maryland, varicose-vein removal in Maine, hormone-replacement therapy in Nevada and New York, early intervention service in Rhode Island, and psychotropic drugs in New York and Wisconsin.

What next, full coverage for nips and tucks?

What if you are a teetotaler who never touches a drop of booze, think chiropractors and acupuncturists are quacks, or take Thomas Szasz's critical view of psychiatry? Shut up and pay anyway. Government knows better what should be included in your medical insurance.

Turner said that "everybody has a vested interest in getting their interest covered, from the counselors to the chiropractors. It's so self-interested." She added that, according to Congressional Budget Office numbers, for every 1 percent increase in the cost of insurance, 200,000 to 300,000 people nationwide lose their insurance. State mandates keep about one quarter of Americans from getting health insurance, according to John C. Goodman, president of the Dallas-based National Center for Policy Analysis, a free-market think tank.

Costs in One State

Using that estimate of coverage loss caused by insurance mandates, let's look at how the system works in California, with one-ninth of America's population. Every 1 percent increase in the cost of insurance therefore means 22,222 to 33,333 people lose insurance. In-vitro fertilization coverage mandated by the state raises costs 3 percent to 5 percent. So this mandate alone means 66,666 to 166,665 people lose health insurance.

California also mandates mental-health parity, which raises costs 5 to 10 percent. This mandate causes 111,110 to 333,330 people to lose coverage.

Put another way, if just these two mandates were repealed in California, from 177,776 to 499,995 people could again afford insurance. That would go a long way toward helping the 6.5 million Californians Schwarzenegger says are uninsured and supposedly would be helped by his universal coverage proposal.

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A 1998 study Turner co-wrote with Melinda L. Schriver for the Heritage Foundation looked at 16 states that "were most aggressive in passing laws designed to increase access to health insurance for their uninsured citizens. They imposed mandates and regulations which primarily affected health insurance for small employers and individual citizens, and put into law at the state level many of the provisions contained in the failed Clinton health care bill."

The result: the uninsured populations in those 16 states rose eight times faster than in the other 34 states: "Each of the 16 states experienced a *decline* in private and individual health insurance coverage and an *increase* in the number of uninsured citizens." These 16 states "actually ended up harming their citizens by increasing the regulation of their insurance markets, inadvertently squeezing more and more people out of the system."

Mandates may seem to benefit those who use the services or need the treatments, but even seemingly obvious mandates—such as care for infants—push med-

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ical care toward a centralized system. And even the obvious mandates raise costs and so cut some people out of coverage.

Good and Bad Trends

As most states have already imposed some of the more "basic" mandates, such as prenatal care, more obscure ones are cropping up, such as those called "slacker mandates." Is your lazy college grad hanging around playing video games? Well, New Jersey mandates health insurance for unmarried dependents until age 30, and New Mexico does so until 25. Most other states mandate coverage only until 19—22 or 23 for college students.

CAHI warned in its 2006 study that new mandates "have a way of 'making the rounds,' finding their way into bills all over the country." On the positive side, 30 or more states now require that the costs of a mandate be assessed before it is imposed. So at least legislators, and citizens, know how costly a mandate will be before it takes effect.

And a May 2007 "Trends & Ends" memo from CAHI found the imposition of "state-mandated benefit legislation is slowing down. That change implies that state legislators are finally getting the message."

CAHI Research and Policy Director Victoria Bunce said that tallies of the numbers of mandates are sketchy until 2004. But her research showed mandates growing at about a 3.7 percent rate per year from 1992 to 2004.

In 2006, total state mandates rose by only 0.7 percent over 2005, a sharp downturn. However, through May 2007, total state mandates increased by 2.9 percent over 2006. Although higher than the previous year, that amount still is less than the average increase of what Bunce called the "explosion" of mandates in the 1992–2004 period. But the 2006 uptick shows that the mandate cancer is far from being in remission.

One obvious way out of this problem is for states to follow Utah's example, which has stopped 15 mandates, and begin repealing as many mandates as possible.

Goodman provided some other ideas:

- Create huge exceptions to some or all mandates for groups such as small businesses, individuals, or people on Medicare.
- Allow people to buy insurance policies just like those carried by state employees, often including legislators themselves, which frequently are exempted from state mandates. Not allowing regular citizens the same choices as legislators themselves is sheer hypocrisy.
- Don't increase federal involvement in medicine. Goodman warned that more federal meddling means "there will be lots more federal mandates."
- Allow citizens of one state to purchase any insurance policy from a carrier in any other state. It's silly that such purchases are banned. People buy goods and services from out of state all the time, often over the Internet. Why not health insurance?

There still is time for Americans to reverse the piecemeal advance toward health socialism known as mandated benefits. Reducing even one mandated benefit a year in every state would be a better prescription for health care than an apple a day.

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The True Price of a Hybrid

BY PAUL CWIK

Prices are amazing. They are only little numbers, but they are so very useful. An economist will tell you that prices are the relative scarcities of items measured in monetary terms. The average businessman, if he ever really thinks about them, might say that they indicate which resources to use and which to avoid. Prices help answer the entrepreneurs' questions "Should we increase or cut back on the use of an input, and to what extent?" Prices communicate to entrepreneurs incredibly valuable information about which combinations of resources they should use. They allow entrepreneurs to coordinate their actions with one another. (As FEE founder Leonard Read explained, we know that it is only through the price system that we can make a pencil.)

Prices enable the producers to satisfy not just random wants and desires of consumers, but they show the entrepreneur which wants and desires are most urgent. They help consumers ration goods; they stop people from taking too much. They allow each of us to adjust our own personal plans and integrate them into the greater whole. All this is done without a central planner. No one person, computer, or government bureau can set and then constantly adjust prices better than the market. Additionally, the price is itself economical. It is just a single number. Yes, prices are truly amazing.

Perhaps the most important aspect of the price system is that it is the mechanism by which we are able to calculate efficiency. To make an economy function efficiently, we need to be able to compare the relative scarcities of all the different goods and services in an economy. Without such knowledge, we have economic chaos. Prices allow us a basis of comparison.

How do we measure the scarcity ratio between apples and oranges without a common denominator? In a barter economy with two goods, there is only one ratio that needs to be considered. In an economy with three goods, there are three ratios. With four goods, there are six ratios; and with five goods, there are ten ratios. In a complex economy like ours, there are too many ratios to count.

No one person, computer, or government bureau can set and then constantly adjust prices better than the market.

However, in an economy that uses money, all we have to do is compare prices. They quickly show us the relative scarcities. If the price increases, the item is becoming scarcer. Not only does the price tell us if the item is becoming more or less scarce, it also tells us by how much. A 1 percent change is different than a doubling of the price. Since each item's relative scarcity is expressed as a price, no one has to know all the relative scarcities of the various inputs unless he wants to look. In a world of barter, I would need to keep in my head the relative scarcity ratio between my toothbrush and magnesium. In a world of prices, we don't have to know the price of magnesium unless we want to know. By simply looking at prices and comparing costs, entrepreneurs are able to calculate economic efficiency.

Suppose an entrepreneur wants steel in his production process; he would have to bid it away from an

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already profitable use—its opportunity cost. When every factor of production is devoted to its most profitable use, the economy is running efficiently and consumers are getting the goods they value most highly. Suppose that an entrepreneur has an idea for a new business. He would then look to see if the price at which he could sell the good on the open market would exceed the costs. If it would and he could make a profit, then he'd start the business. However, if it looked as though he wouldn't be able to cover the costs, then the market would be telling him that the resources were currently employed in a more efficient manner and that he shouldn't divert them to his idea. If he did, the resources would be employed in producing goods consumers would find less useful. It is this mechanism of economic calculation that is too often overlooked, especially when it comes to matters of environmental economics.

Environmentalists say we need to take account of the true cost of driving. That is absolutely true. However, that means the *full* cost, which includes the unseen alternatives forgone. Durable goods yield services through time, and when considering the costs of such goods, we need to discount future values. This is necessary to get the true value of the good, because present goods are more valuable than future goods.

To explore this concept, I came up with a problem: calculating the true cost of a hybrid car. This is basically an annuity problem. You have a large upfront cost followed by a slow and steady stream of cash into the future. So the real question is, how long will it take for the savings from the hybrid's fuel efficiency to make up for the upfront costs?

Let's look at the popular 2007 Honda Civic Sedan Hybrid and compare it to the nonhybrid version. The Civic Sedan's average price is $17,760; the hybrid's average price is $22,600, a $4,840 difference. Next we need to check the miles per gallon claimed for each car. The Civic Sedan gets 35 mpg, the hybrid 50 mpg. If the average person drives 15,000 miles per year, then the savings is 128.57 gallons a year, or $424.28 a year (assuming gasoline at $3.30 per gallon). Before we discount for the future, we see that it will take over 11 years to make buying the hybrid worthwhile. When we include a reasonable discount of 3 percent, the number grows to 14.5 years.

How can this be? Is it a simple rigging of the numbers, or is this the case with all hybrids? I have compared these 2007 models: Honda Accord Sedan, Ford Escape, Toyota Camry, Toyota Highlander, Nissan Altima, Saturn Aura, Saturn Vue, Lexus GS Sedan, and Lexus RX 400h with their respective hybrids. Under the best assumptions of 15,000 miles a year, a discount rate of 3 percent, and gasoline prices of $3.30 per gallon, the best hybrid was the Saturn Aura, with five years till payoff, and the worst was the Lexus GS Sedan, with over 100 years. (See table.)

Model	Price Differential	$ Saved per Year	Number of Years
Saturn Aura	$1700	$408.57	5
Lexus RX	$3780	$736.69	5.5
Toyota Highlander	$4375	$572.06	9
Ford Escape	$5821	$674.55	10
Toyota Camry	$5225	$467.61	14
Honda Civic	$4840	$424.28	14.5
Saturn Vue	$5395	$342.44	22
Honda Accord	$7740	$448.97	24.5
Nissan Altima	$7440	$380.75	Over 25
Lexus GS Sedan	$10750	$112.07	Over 100

"Dust to Dust"

When comparing the environmental footprint of a hybrid with a nonhybrid vehicle, we need to look at the total picture, the footprint from "dust to dust." The costs of the resources and the costs of disposal need to be compared to the benefit from the use of the vehicle. A hybrid car uses gasoline and an alternative power source, such as a battery. There are some nasty chemicals that go into making these fuel-efficient cars that also create some nasty waste byproducts. So the disposal of the batteries also needs to be taken into account; this phase is also a part of the total "ecological footprint." While hybrids may be more fuel efficient in terms of gasoline consumption, there may be offsetting effects in the creation and disposal of the battery. And if we are considering a completely electric car, then we also need to consider the generation of the power to the outlet when we plug it in the wall.

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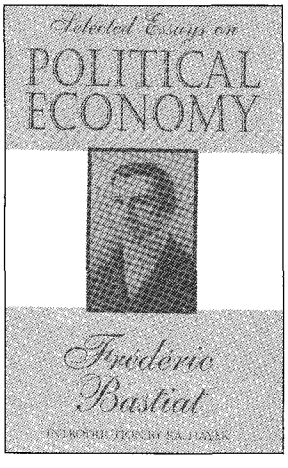
When the full picture is examined, hybrids do not look quite as good as the environmental lobbyists would have us believe. According to the "Dust-to-Dust Automotive Energy Report" by CNW Research (http://tinyurl.com/2h976h), the average energy cost per mile for the top ten hybrids (2006 models) is $3.65. The average for the industry is $2.95. (I happily report that my Chevy Monte Carlo is $1.61 and my wife's Saab 9-3 is at $1.64 per mile.) The Prius, Civic, Accord, and Escape hybrids are $2.87, $3.40, $3.42, and $3.54, respectively.

To efficiently use resources, we want the best combination of least-cost technology. Suppose a family is growing and badly needs a bigger vehicle. Surely a hybrid would be better than a minivan or SUV, right? Don't run out to the hybrid dealer just yet. The average energy cost for upper-midrange SUVs like the Hummer H3, the Saab 9-7X, and the Range Rover Sport is $2.43 per mile, well below the hybrids, and the average for minivans is even better: $2.23 per mile. If we want to be good to the environment, we need to use resources wisely. The price system shows us how to act so we don't waste resources. When people naturally minimize costs, they are conserving resources. No governmental interference is necessary.

Some of my students point out that a tax credit helps offset the price differential of a hybrid, thus lowering the cost to the owner. While true, the credit doesn't negate the evasion of the economic-allocation problem. It merely masks it. Just because the consumer does not bear the burden of bidding resources away from more profitable uses doesn't mean those resources aren't being misdirected.

When the full picture is examined, hybrids do not look quite as good as the environmental lobbyists would have us believe.

Environmental economics is a fascinating field. It attempts to assure that people confront the full costs of their decisions about what to produce and what to buy. Better than any government bureau, the price system communicates which methods of production are least costly. If we want to be environmentally friendly, all we need do is follow the market and compare total costs. The market abhors waste.



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Involuntary Municipal Annexation: The Ugly Truth

BY BARBARA HUNTER

Suppose you received a letter informing you that the nearby city had decided to annex your property. Beginning the next year, you learn, your property taxes would double and no additional government services would be provided.

If that happened, you may be sure that 1) your property had been assessed at a high value, and 2) you lived in one of the four states—Idaho, Indiana, North Carolina, or Tennessee—where the law permits "involuntary annexation." (While these four are the major offenders, many other states engage in this practice to a lesser extent.) Of the four, the law in North Carolina is by far the most onerous and the one most difficult (actually virtually impossible) to oppose. It may be worthwhile to investigate what it is that makes these four states so enlightened and the other 46 so benighted. As a resident of North Carolina, I am most familiar with the laws of that state and will describe involuntary annexation from that perspective.

Under North Carolina law municipalities are in effect given absolute power to add desirable contiguous areas. The requirements for involuntary annexation are simple and clearly intended not only to smooth the process but also to permit the acquisition of as much valuable property as possible. Although the procedure requires a hearing, its purpose is only to provide information, not entertain points of view. One year after the hearing, the municipality may enact the annexation, with no provision for challenge.

Why would a municipality want to annex communities around it? There is a common expression: When someone says, "It isn't about the money," it's about the money. If you read between the lines, you'll find dollar signs all over. When faced with budgetary problems an urban government in a state that permits forcible annexation has certain choices: 1) reduce spending, 2) raise taxes, or 3) add high-value property to its boundaries. The first one is rarely considered; if something is in the budget, it is almost unfailingly assumed to be needed or at least desirable. The second choice is politically risky. Because the third choice is available in this state, it may be possible to locate some adjacent ripe fruit to pick.

My choice of words is not arbitrary, for there is ample evidence of cherry-picking when it comes to enriching a municipality's real-estate tax base. What else can it be called when upscale subdivisions are grabbed and low-income areas, which really could benefit from increased services and which in some cases have actually requested to be annexed, are bypassed?

This illustrates the fundamental difference between voluntary and involuntary annexation. If an area asks to be annexed (voluntary), there is no obligation to consider it; if it suits the municipality's governing board to ignore the request, that's that. On the other hand, if the municipality wants to annex (involuntary), there is essentially no recourse. On occasion, lawsuits have been attempted, but with few exceptions they have not succeeded beyond delaying the inevitable. Even worse, those living in the areas being annexed cannot vote in the municipal elections until one year after they are absorbed, which introduces the issue of taxation without representation.

A major player in the fight to maintain the current law is the North Carolina League of Municipalities

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(NCLM), which bills itself as "a nonpartisan federation of North Carolina's cities, towns and villages" and which is affiliated with the National League of Cities. If that is the definition of nonpartisan, then nothing deserves to be called partisan. Both the state and national organizations filed a "friend of the court" brief with the U.S. Supreme Court on behalf of the city of New London, Connecticut, in its notorious eminent-domain case that deprived Suzette Kelo and others of their homes.

What can annexation do to people's tax bills? I checked the results of several involuntary annexations and found increases from 60 to more than 100 percent. As a result of the convoluted law, one locale is currently faced with a bill for 21 months of taxes, due immediately.

A newspaper column I wrote about involuntary annexation produced a torrent of e-mails filled with anger over the battles the writers have had to wage to keep the hands of adjacent cities out of their pockets. One person spoke about having moved out of town twice, only to be forcibly annexed again. Others reported tax increases so large (sometimes more than double the previous rate) that they may be forced to sell their homes. Many described months and years of lawsuits, with accompanying legal fees, hoping—usually in vain—to prevent annexations with nothing to offer but tax bills.

The annexing cities and towns often claim that people in the surrounding areas use their "services" without paying for them. Let's examine this and some other claims of the pro-involuntary-annexation champions. Following are verbatim quotes from the NCLM, each with commentary courtesy of your humble writer.

"[B]ecause of annexation, North Carolina's central cities are dominant job centers; . . . experience dynamic economic growth." No evidence is offered that the same areas, in the absence of involuntary annexation, would have less-dominant job centers or would experience less economic growth. On the contrary, the increased taxation produced by the annexation may have had the opposite effect.

"North Carolina's cities annex new (populous) subdivisions; zero-elastic cities cannot." This is merely a tautology. The term "elastic" means that the city is allowed to annex involuntarily, whereas "zero-elastic" means that the city is not allowed to do this. Most important, there is no reason whatever to assume that an area consisting of a city and its suburbs will be less prosperous than a city with no suburbs because they have been absorbed into the city.

"Overall, half of all jobs in North Carolina are located in the state's 21 central cities." This point is a non sequitur, for it is true in state after state, whether or not the workers themselves are city residents.

"Citizens [of an area being annexed] receive municipal services, typically police, fire, parks and recreation, streets, street lighting, garbage collection, recycling, planning and zoning, often access to water and sewer." Except when they don't. By the very nature of involuntary-annexation decisions, newly annexed areas usually have every amenity its people want; otherwise, they wouldn't be attractive to the annexing city.

"Annexation . . . helps keep property tax rates lower." That depends; if you add to your tax base by grabbing prosperous adjacent areas, you can fund more programs with the additional revenue. Whether the property tax rates will or will not be lower, at least in the long run, depends on the municipalities' attitude toward increased tax revenue.

"North Carolina leads the nation in Aaa bond-rated cities." No surprise. The ability to separate people from their hard-earned dollars through forced annexation makes municipal debt easier to acquire. The result may be either beneficial or detrimental, depending on the decisions of the municipalities. If anything, the lure of easy credit, as with private finances, can lead to short-sighted or even foolhardy expenditures.

Fiscally Conservative?

"NC municipal officials are fiscally conservative." Really? When "projects" include such items as multimillion-dollar entertainment centers to be funded largely with tax dollars, the term "conservative" may be a bit of an overstatement.

"North Carolina became a great state by moving forward and not letting a few people veto progress for everyone else." In 2006 North Carolina was one of ten states whose credit rating was put into the "negative outlook" category (as reported by Moody's and by Standard & Poor's), one step above "downgraded." (The rating was upgraded again in the 2007 report.) This may be considered "moving forward" by some, but not everyone will agree.

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"Changing North Carolina's annexation laws will cost city and county taxpayers millions of extra dollars for higher bond interest rates." On the other hand, it might introduce more fiscal responsibility when the enticement of ever-expanding revenue sources is mitigated.

"Annexation of urbanizing areas is the most cost-effective way to deal with growth. Expanding existing infrastructure, rather than building new systems, benefits the vast majority of taxpayers." No proof is offered of this contention. Expanding existing systems, such as water supply and sewage treatment, may distort and overburden existing systems that were never designed to accommodate greatly increased usage. The result may necessitate redesigning or even rebuilding currently operational systems. Such a possibility is never even considered by the NCLM's arguments.

Septic-Tank Red Herring

"A veto [NCLM's code word for people opting out of involuntary annexation] will lead to more of North Carolina's growing population being on septic tanks, substandard wells and privately-operated and sometimes costly sewage treatment plants that significantly increase environmental and public health risks." All new private wells, septic systems, and treatment plants must meet government standards for both human and environmental safety and may be placed in operation only after inspection, testing, and approval.

"An area's economy is only as good as its city's economy." The expansion of the suburban economy may be just as effective as that of the city's.

And the oft-repeated theme: *"Don't mess with success."* Success for whom? Not for the people who have been drawn into a city's boundaries and have received little or nothing of value in return for their increased tax bills. Not for the people whose property taxes have as much as doubled and who may now be faced with either doing without necessities or else selling and moving elsewhere. Not those who try to sell their property and then discover that the tax rate has made their homes difficult, if not impossible, to sell because taxes are a major consideration for potential buyers. Not for those who had to sell their homes for far less than they otherwise would have received, because taxes are so much higher than for equivalent homes outside the annexed area. And certainly not for those who decided to live where they were because they wanted no part of the city's problems, such as political maneuvering, safety issues, and the spending of tax dollars on "projects" that have nothing to do with the legitimate functions of government.

One common notion (considered almost axiomatic) is that the addition of outlying areas, with the resultant increased revenue, is beneficial to city finances and thus helps the city's residents. Let's examine one example in North Carolina. During the decade ending in 2000, the city of Charlotte used involuntary annexation to increase its population by 84,000 people (read: taxpayers), a 21 percent increase over 1990, and the process of annexation has continued every two years since then. So, has Charlotte's tax rate (defined as taxes and fees) been kept low? No, Charlotte has the highest rate in North Carolina.

What Can Be Done?

What options are available to those who consider forcible annexation an imposition on their rights as citizens of the state as well as of the United States, land of freedom? Some people have banded together to fight the would-be annexing city with lawsuits. On extremely rare occasions they have won, at least for a while. There is, however, another argument for suing: that for every year they delay what may be inevitable, they are saving significant money.

There is another possibility, but it will require a combination of patient effort and determination. As long as the state legislature hears only the arguments of the NCLM, whose members are spending tax dollars to work for their own interests and against the people's interests, involuntary annexation will be around forever. Each year, several bills are introduced into both legislative houses. Most of the time they are simply bottled up in the assigned committees and never see the light of day. But consider: The targeted taxpayers far outnumber the tax receivers. Perhaps what is needed is more organization, including an investigation of the unholy alliances between the League and the legislature.

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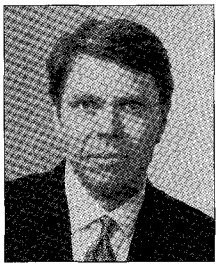

The Nation Is Not a House

BY DONALD J. BOUDREAUX

Let's reflect on the rhetoric used by those who oppose greater freedom for people to move back and forth across political borders. Opponents of the freedom to move frequently analogize a nation to a house. "You lock your house, don't you?" these anti-immigrationists ask—implying that what makes sense for a home makes equally good sense for a nation.

Analogies are useful for analyses, debate, and persuasion. But just as they can enlighten, analogies can also mislead. They must be used, and heard, always with care.

The analogy of a home to a nation is more misleading than helpful. Unlike a home, a nation—at least each nation whose citizens are free—is not a private domain; it does not belong to anyone in the way that a house belongs to its owner. Also unlike in a home, living space within a free country is allocated by market transactions rather than by the conscious, non-market decisions of the residents of a house. A person who enters a country and purchases a place to live displaces no one in the way that an intruder into a home would displace a resident from his bed and favorite chair. In addition, of course, every intruder into a home likely intends to inflict some harm on the household's residents. In contrast, the vast majority of persons who enter a country intend no harm to anyone.

Moreover, in a home each and every space is private; no place in a home is open to the public. A nonresident of a home can enter only if he first secures from a resident an invitation—an invitation that is nontransferable, of limited duration, and that specifies (if only implicitly) the time and conditions of the nonresident's visit. Not so in a nation. Each nation is full of places that generally are open to the public. Roads, boulevards, sidewalks, parks, town squares, city centers, and airports are by their nature open to people without invitation.

And more: while in a home each resident personally knows (and frequently loves) each of the other residents, in a nation the citizens overwhelmingly remain strangers to one another. The percentage of America's 300-plus million citizens whom I know is infinitesimal; I've not even laid eyes on the vast majority of them. The same is true for every other American, including the president of the United States.

> If every foreigner were immediately and forever expelled from the United States today, I—like all Americans—would be not one whit less vigilant in locking my home.

Analogizing a nation to a home creates the myth that citizens of a nation can, and do, trust each other in ways that members of the same household typically trust each other. But, of course, when I lock my home at night I do so to guard against violence and theft that might otherwise be inflicted on my family by other Americans. If every foreigner were immediately and forever expelled from the United States today, I—like all Americans—would be not one whit less vigilant in locking my home.

The fact is that the relationships each of us has with our fellow citizens overwhelmingly are of the arm's-length, impersonal variety. They are market relationships, governed chiefly by self-interest on both sides of each exchange. They are not the sorts of personal relationships that guide decisions made within households. They are, indeed, precisely the sorts of relationships that each of us has with strangers from foreign countries.

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So what value is there in analogizing a nation to a home? Very little. No one would seriously insist that each city should shut down its streets at night (on the grounds that private homes at night become inactive). No one would seriously demand that each pedestrian on Manhattan's Fifth Avenue or on New Orleans's Bourbon Street first secure a specific invitation to stroll those famous boulevards. And very few Americans would agree to give to the government the same sort of power to govern speech and personal behavior that members of each household routinely exercise over each other.

One final problem with this analogy deserves mention: if it is valid to analogize one sort of political jurisdiction (namely, the nation) to a house, it should be valid to analogize other political jurisdictions (such as states or counties or towns) to a house. Yet I've heard no one argue that Minnesota or Orange County, California, or Irvington-on-Hudson, N.Y., should "secure its borders" against nonresidents of these political jurisdictions. But why not? If a political jurisdiction really is like a house, then surely the failure of the state of Minnesota to "lock its doors" is a foolhardy dereliction of responsibility.

Yes, it's true that the U.S. Constitution prohibits such "door-locking" by states and locales. But it is also true that this document of delegated and enumerated powers never delegates the power to Uncle Sam to control immigration. The Constitution does give Congress the power to determine the conditions for attaining U.S. citizenship—but it says nothing about limiting immigration. A plausible interpretation of the Constitution's silence on this matter is that America's Founding Fathers understood that the nation is not like a house that must be "locked."

Ironically, those who speak of the nation as if it *is* "our" house seek to strip us Americans of some of our private property rights by deviously tapping into our justified sense of the importance of such rights. Because I secure and govern my real home—my house and my land located in the town of Burke, Virginia—I acknowledge the importance of my private rights to this property. And further, I strengthen this institution by acting in accordance with it. It is *my and my family's* home; it belongs to no one else. Only my wife, my son, and I control access to our property. If my neighbor appears at my door one day with a gun, asserting some imagined prerogative to keep certain of my invited guests from entering my home, my neighbor clearly would be violating my rights. His actions would diminish my freedom and rob my family and me of rights that rightfully belong to us.

Ironically, those who speak of the nation as if it is "our" house seek to strip us Americans of some of our private property rights by deviously tapping into our justified sense of the importance of such rights.

And so when some Americans use government to prevent peaceful non-Americans from entering the United States, my freedom is diminished and my rights are obstructed no less than when my neighbor takes it upon himself to interfere in my affairs. The sanctity of the private home that anti-immigrationists appeal to in their attempt to justify exclusionist policies is, in fact, weakened by those policies.

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The Great Depression According to Milton Friedman

BY IVAN PONGRACIC, JR.

Few events in U.S. history can rival the Great Depression for its impact. The period from 1929 to 1941 saw fundamental changes in the landscape of American politics and economics, including such monumental events as America's going off the gold standard and the founding of Social Security. It was a watershed for the growth of the federal government.

The Great Depression created a widespread misconception that market economies are inherently unstable and must be managed by the government to avoid large macreconomic fluctuations, that is, business cycles. This view persists to this day despite the more than 40 years since Milton Friedman and Anna Jacobson Schwartz showed convincingly that the Federal Reserve's monetary policies were largely to blame for the severity of the Great Depression. In 2002 Ben Bernanke (then a Federal Reserve governor, today the chairman of the Board of Governors) made this startling admission in a speech given in honor of Friedman's 90th birthday: "I would like to say to Milton and Anna: Regarding the Great Depression, you're right. We did it. We're very sorry."

The Great Depression created a widespread misconception that market economies are inherently unstable and must be managed by the government to avoid large macreconomic fluctuations, that is, business cycles.

Friedman, the great free-market champion of the last 50 years and one of the most influential economists of the last 200 years, died in November 2006 at 94. He left us an immense intellectual legacy, including his explanation of the Great Depression, which, while persuading a majority of the economics profession, has yet to fully trickle down to the public. It is truly a great mystery why Friedman's explanation has not been more widely recognized and accepted, especially given its influence among economists. Maybe the reason is that it does not lend itself to quick sound bites by politicians eager to justify more power. Or maybe it is usually presented in a way that makes it too difficult for the layperson to understand. Or maybe it is just that people find it easier to blame the "capitalists" rather than the hallowed Federal Reserve. Whatever the case, it would be beneficial to revisit Friedman's argument.

The standard explanation of the Great Depression, found in most American high-school history texts, is that it was created by the wild and irrational stock-market speculation that ultimately led to the Great Crash of October 1929. Investor speculations were so excessive—so the story goes—that once the bubble popped, it triggered the most severe decline in economic activity in U.S. history. The key point of this story is that the crash and the subsequent depression were due to factors that are innate to the capitalist system, unchecked under the supposedly laissez-faire policies of Herbert Hoover. It was only once Franklin Delano Roosevelt came into office that the government jump-

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started the recovery. It is thus claimed that FDR's policies were responsible not only for the recovery, but in fact for "saving capitalism from itself" when many Americans were willing to consider adopting full-blown socialism in the 1930s as a way to deal with the downturn.

Most people do not realize how much of this explanation had been shaped by Keynesian economics, the dominant economic paradigm from the 1940s to the 1970s. Keynesian economics got its start with the publication of John Maynard Keynes's *General Theory of Employment, Interest, and Money* in 1936. There Keynes proposed a view of the Great Depression that was at odds with the rest of the economics profession at the time. Most economists of the era tended to agree that market economies are "self-adjusting" and that they cannot get stuck in a recession for very long. However, this view seemed to be at odds with the ugly reality of the time: persistent unemployment rates of 20 percent and more, even as high as 25 percent in 1933—with no end in sight.

John Maynard Keynes's explanation, in addition to creating a new way of analyzing the economy as a whole, heavily influenced policymakers and ordinary people around the world.

Keynes seemed to be the right man for the time as he was reflecting the increasingly common view that blamed the capitalists themselves for the situation. In the *General Theory* Keynes rejected the view that the boom-bust cycle was due to over-expansive government monetary policy and that the stubbornness of the Depression was due to government interference with market mechanisms. He labeled all economists who believed such views as "classical"—in other words, hopelessly out of touch with reality. Instead, Keynes proposed a "general theory" that he thought capable of explaining not only the good times but also the bad.

According to Keynes, what drives the economy is aggregate demand or aggregate expenditures. Aggregate demand can be broken down into three main components: personal consumption (C), private investment (I), and government expenditures (G). The relationship can be summed up with this formula: AD = C + I + G. If Aggregate Demand is strong, the economy will be strong. However, if Aggregate Demand falters, businesses will end up with large unsold inventories and will cut back on production to avoid surpluses in the future. As they cut back they will of course need fewer inputs—including labor—and high unemployment will result.

The culprit in this story, the element that throws the entire system out of whack, is private investment. Private investment consists of business expenditures on machines, buildings, factories, and so on. In other words, investment is capital formation. Keynes claimed that private investment is inherently unstable due to what he called the "animal spirits" of businessmen/capitalists. He believed that businessmen are ultimately irrational and prone to herd-like behavior. Like sheep that blindly follow other sheep in the herd, it is easy for businessmen to become "irrationally exuberant"—as well as irrationally lethargic. Investment lethargy would trigger a large decrease in private investment, thus decreasing aggregate expenditures and triggering an economic downturn.

From Downturn to Depression

How do we go from this downturn to a full-blown recession or even a depression? As the economy slows down, unemployment rises and leads to a loss of consumer confidence. Consumer pessimism will lead to more saving and less spending, thus decreasing the personal-consumption component of aggregate demand, exacerbating the downturn. Notice that both I and C are therefore driven by the expectations of private individuals (irrational in the case of business investors): if both investors and consumers become pessimistic and expect a recession, they will cut back on their expenditures and thus cause the aggregate demand to be too low to bring about full employment of available resources. According to Keynes, a recession is, in a nutshell, a self-fulfilling prophecy.

The Great Depression was therefore a long stubborn period of dismally low aggregate expenditures, and according to Keynes, there were no economic forces working to pull the economy out of this situation automatically. In other words, he thought there is no self-corrective mechanism (or invisible hand) in a free-

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market economy. Instead, irrational changes in expectations would regularly lead to wide and destructive fluctuations in the macroeconomy. So we see that the business cycle is the natural and expected consequence of the unfettered operation of a market economy. Therefore if an unfettered market economy results in depressions, it is clearly undesirable. It also should be obvious now that the standard high-school history-book explanation is basically just a simplified version of this Keynesian story.

What is required to avoid a recession, then, is for the government to insure that the aggregate expenditures are enough to achieve full employment. The government can do that through either fiscal policy (taxation and government spending) or monetary policy (control of the money supply). Keynes favored fiscal policy and recommended that the government engage in massive deficit spending. Deficit spending would allow for an increase in government spending without an offsetting increase in the tax burden on private individuals and businesses. Thus increased government spending could neutralize any decreased expenditures in the private sector, preserving employment and incomes and ultimately reversing the pessimistic expectations that led to the downturn in the first place. Keynesian "demand management" clearly prescribed an important role for the government.

Keynes's explanation, in addition to creating a new way of analyzing the economy as a whole, heavily influenced policymakers and ordinary people around the world. It was soon accepted that the government *must* engage in a countercyclical policy of demand management to stabilize the market economy. Both FDR and Keynes were proclaimed the "saviors of capitalism"!

Friedman Follows the Facts

In the 1950s, Friedman and Anna Schwartz began compiling historical data on monetary variables without any particular agenda or intention of overturning the dominant explanation of the Great Depression. But it became obvious that the data were at odds with the standard Keynesian explanation. So in their 1963 book, *A Monetary History of the United States, 1867–1960*, they presented the empirical evidence that led them to a completely different explanation.

It became obvious that the data were at odds with the standard Keynesian explanation.

As a result of examining more closely the key years between 1929 and 1933, Friedman and Schwartz first concluded that the Great Depression was not the necessary and direct result of the stock-market crash of October 1929, which they attribute to a speculative investment bubble. (The popping of the "bubble" may have been instigated by the Federal Reserve's raising of the discount rate—the interest rate the Fed charges on loans to commercial banks—in August 1929. The cause of the speculative bubble that led to the crash is a somewhat controversial topic. Whereas Friedman and Schwartz accepted that the bubble was caused by investors, seemingly endorsing—at least partly—the Keynesian "animal spirits" explanation, Austrian economists have argued otherwise.) In fact, they believed that the economy could have recovered rather rapidly if only the Fed—the central bank of the United States—had not engaged in a series of disastrous policies in the aftermath of the crash.

The Fed had only been in existence for 15 years at the time of the crash, having opened its doors in 1914. The United States had two central banks before the Fed (the Bank of United States, 1792–1812; and the Second Bank of the United States, 1816–1836), but had been without a central bank of any sort for over 75 years until the creation of the Fed. It was created primarily to act as a "lender of last resort" from which private banks could borrow money in times of crisis. The need for a lender of last resort in the U.S. banking system was due to a systemic weakness caused unintentionally by state and federal banking regulations. (Canada, with a freer banking system, had no such systemic weakness and no need for a lender of last resort.) Weak banks are subject to crisis when their depositors are no longer confident that their bank holds sufficient reserves to satisfy all withdrawal demands at a certain time. This can trigger a "bank run," where depositors attempt to get to the bank before the other depositors in order to withdraw their money before the bank's

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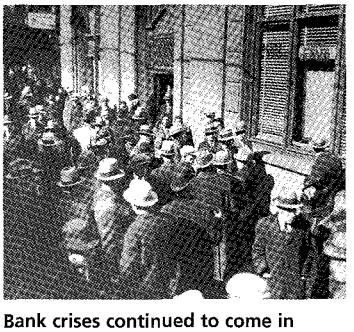
limited reserves run out. A run on a bank can easily generate other bank runs as depositors become worried about the financial health of their own similarly weak banks.

The problem with bank runs is that when depositors withdraw money and stuff it under their mattresses rather than trust it to other banks, the money supply shrinks. To understand this phenomenon, we have to explain how we measure the money supply. The simplest measures include not only currency but also checking deposits, since they are commonly used to make payments. What complicates things is that fractional-reserve banking leads to a multiple expansion of deposits. When someone puts money in a bank his checking account reflects the deposit, but the bank does not keep all the money on hand—it's not a warehouse. Instead, it keeps only a fraction as "reserves" and lends the rest to a borrower, who in turn buys goods or services. The seller then deposits her new income in a bank, where she gets a checking account. The money supply increases by the amount of the new deposit. This process will continue, though in ever-decreasing amounts since banks have to keep some part of the new deposits as reserves. Yet each cycle will increase the money supply by increasing the overall amount of deposits held at banks.



Bank crises continued to come in waves until the spring of 1933.

This process works in reverse too. When banks lose reserves due to bank runs, the economy experiences a multiple contraction of deposits. The deposits that are removed from the economy greatly exceed the additional currency that the public now holds, so the money supply decreases.

The stock-market crash of October 1929 made it more difficult for many businesses to repay their loans to the banks, and many banks found their balance sheets impaired as a result. But the most important cause of the bank runs that began in October 1930 was bad times in the farm belt, where the banks were especially weak and poorly diversified. The number of bank runs increased exponentially in December 1930—in that single month 352 banks failed. Most of the failing banks were in the Midwest, their failures caused by farmers who defaulted on their loans because they were hit hard by the economic downturn. No sooner did the first wave of bank runs subside than another got underway in the spring of 1931, creating what Friedman and Schwartz described as a "contagion of fear" among bank depositors. Bank crises continued to come in waves until the spring of 1933.

Roosevelt Comes In

FDR was inaugurated on March 4, 1933, and two days later he declared a "bank holiday," allowing banks legally to refuse withdrawals by depositors; it lasted ten days. With his famous phrase, "The only thing we have to fear is fear itself," he intended to dissuade depositors from running on their banks, but by then it was far too late. In 1929 there were a total of 25,000 banks in the United States. As the bank holiday ended, only 12,000 banks were operating (though another 3,000 were to reopen eventually). The effect on the money supply was equally dramatic. From 1929 to 1933 it fell by 27 percent—for every $3 in circulation in 1929 (whether in currency or deposits), only $2 was left in 1933. Such a drastic fall in the money supply inevitably led to a massive decrease in aggregate demand. People's savings were wiped out so their natural response was to save more to compensate, leading to plummeting consumption spending. Naturally, total economic output also fell dramatically: GDP was 29 percent lower in 1933 than in 1929. And the unemployment rate hit its historic high of 25 percent in 1933.

Friedman and Schwartz argued that all this was due to the Fed's failure to carry out its assigned role as the lender of last resort. Rather than providing liquidity through loans, the Fed just watched as banks dropped like flies, seemingly oblivious to the effect this would have on the money supply. The Fed could have offset the decrease created by bank failures by engaging in bond purchases, but it did not. As Milton and Rose Friedman wrote in *Free to Choose*:

> The [Federal Reserve] System could have provided a far better solution by engaging in large-scale

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open market purchases of government bonds. That would have provided banks with additional cash to meet the demands of their depositors. That would have ended—or at least sharply reduced—the stream of bank failures and have prevented the public's attempted conversion of deposits into currency from reducing the quantity of money. Unfortunately, the Fed's actions were hesitant and small. In the main, it stood idly by and let the crisis take its course—a pattern of behavior that was to be repeated again and again during the next two years.

According to Friedman and Schwartz, this was a complete abdication of the Fed's core responsibilities—responsibilities it had taken away from the commercial bank clearinghouses that had acted to mitigate panics before 1914—and was the primary cause of the Great Depression.

The obvious question is: Why didn't the Fed act? We don't know for sure, but Friedman and Schwartz proposed several possible explanations: 1) the Fed officials did not fully understand the disastrous consequences of letting so many banks go under. Friedman and Schwartz wrote that Fed officials may have "tended to regard bank failures as regrettable consequences of bank management or bad banking practices, or as inevitable reactions to prior speculative excesses, or as a consequence but hardly a cause of the financial and economic collapse in process"; 2) Fed officials may have been acting out of their own self-interest since many of them were affiliated with large Northeastern banks. Bank failures, at least in the early stages, "were concentrated among smaller banks and since the most influential figures in the system were big-city bankers who deplored the existence of smaller banks, their disappearance may have been viewed with complacency"; 3) The inactivity may have been caused by political infighting between the Federal Reserve Board in Washington, D.C., and regional Fed banks, in particular the New York district bank, which was the most important part of the system at that time. But we may never know the real reason.

> When we centralize great responsibility and power in one institution, its failure will have far-reaching and terrible consequences.

Dangers of Centralized Power

There is an important lesson to be learned from this episode: When we centralize great responsibility and power in one institution, its failure will have far-reaching and terrible consequences. The Fed was instituted to act decisively in the exact circumstances that occurred in 1930–33. Friedman and Schwartz pointed out that the Fed's failure was all the more serious and difficult to understand given how easily it could have been avoided:

> At all times throughout the 1929–1933 contraction, alternative policies were available to the system by which it could have kept the stock of money from falling, and indeed could have increased it at almost any desired rate. Those policies did not involve radical innovations. They involved measures of a kind the system had taken in earlier years, of a kind explicitly contemplated by the founders of the system to meet precisely the kind of banking crisis that developed in late 1930 and persisted thereafter. They involved measures that were actually proposed and very likely would have been adopted under a slightly different bureaucratic structure or distribution of power, or even if the men in power had had somewhat different personalities.

This is the most worrisome fact. The institution failed because of the people within it. And given the immense power and influence it had over the economy, its failure was disastrous. It is important to understand that the Great Depression could have been avoided if the Fed had not so badly botched its monetary policy. In fact, Friedman and Schwartz claimed that the depression would not have been a Great Depression if there had been no Federal Reserve in the first place: "[I]f the pre-1914 banking system rather than the Federal Reserve System had been in existence in 1929, the money stock almost certainly would not have undergone a decline comparable to the one that occurred."

That point was effectively elaborated by Milton and Rose Friedman in *Free to Choose*:

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Had the Federal Reserve System never been established, and had a similar series of runs started, there is little doubt that the same measures would have been taken as in 1907—a restriction of payments. That would have been more drastic than what actually occurred in the final months of 1930. However, by preventing the draining of reserves from good banks, restriction would almost certainly have prevented the subsequent series of bank failures in 1931, 1932, and 1933, just as restriction in 1907 quickly ended bank failures then. . . . The panic over, confidence restored, economic recovery would very likely have begun in early 1931, just as it had in early 1908.

The existence of the Reserve System prevented the drastic therapeutic measure: directly, by reducing the concern of the stronger banks, who, mistakenly as it turned out, were confident that borrowing from the System offered them a reliable escape mechanism in case of difficulty; indirectly, by lulling the community as a whole, and the banking system in particular, into the belief that such drastic measures were no longer necessary now that the System was there to take care of such matters.

In the February 15, 2007, *New York Review of Books* economist and columnist Paul Krugman charged Friedman with "intellectual dishonesty" because Friedman repeatedly called for a significant reduction of the Fed's power or even its outright abolition as a result of his work on the Great Depression. Krugman, however, concluded that the real lesson to be learned from Friedman's explanation is that government institutions should be *more* active, not less. Krugman believes his conclusion to be so obvious that he is convinced that Friedman's contrary recommendation must be driven by an ideological agenda and thus is an example of intellectual dishonesty. However, Krugman is clearly missing the point.

Friedman's conclusion was perfectly logical given his belief that had the Fed not been created, the downturn of 1929 would not have become a major depression. Friedman claims in the paragraph above that without the Fed "the same measures would have been taken [in 1930] as in 1907—a restriction of payments," which he believes would have prevented the crisis from spreading to "stronger banks," those not guilty of overextending themselves through over-risky loans. Monetary economist Lawrence H. White of the University of Missouri-St. Louis filled in the blanks in Friedman's "institutional counter-factual" on the Division of Labour blog (March 12, 2007):

> Friedman understood . . . that before the Federal Reserve Act financial panics in the US were mitigated by the actions of private commercial bank clearinghouses. Friedman and Schwartz's view of the 1930's was that the Fed, having nationalized the roles of the clearinghouse associations [CHAs], particularly the lender-of-last-resort role, did less to mitigate the panic than the CHAs had done in earlier panics like 1907 and 1893. In that sense, the economy would have been better off if the Fed had not been created. This position is perfectly consistent with the position that, provided we take the Fed's nationalization of the clearinghouse roles for granted, the Fed was guilty of not doing its job.

Thus the Fed's failure in the early '30s shows the dangers of excessive centralization of important market functions that were previously dispersed among multiple private institutions. Friedman's bottom line remains intact: The Fed caused the Great Depression.

The Perfect Storm

In the decades following Friedman and Schwartz's work economists started examining other government-policy failures in the aftermath of the crash. They have found an abundant supply of them. Here are several key examples of these bad policies: 1) In response to a sharp decrease in tax revenues in 1930 and 1931 (caused by a slowdown of economic activities), the federal government passed the largest peacetime tax increase in the history of the United States, which clearly applied the brakes on any recovery that could have taken place; 2) the federal government also passed the Smoot-Hawley Tariff Act in 1930, substantially increasing tariffs and leading to retaliatory restrictions by trading partners, which resulted in a considerable decrease in demand for U.S. exports and a further slowdown in production (not to mention a loss of mutually advantageous division of labor); 3) the feder-

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al government also instituted all sorts of "public works" programs, beginning under Herbert Hoover and increasing dramatically under FDR; the programs removed hundreds of thousands of people from the labor market and engaged them in economically wasteful activities, such as carving faces of dead presidents into the sides of a mountain, preventing or delaying necessary labor-market adjustments; 4) another federal policy that prevented (labor and other) market adjustments was the price and wage controls enacted under the National Recovery Administration and in effect from 1933 until 1935 (when ruled unconstitutional); this policy massively distorted relative market prices, impairing their ability to function as guides to entrepreneurs; 5) the Fed was not blameless after 1933 either. It increased bank-reserve requirements in three steps in 1936 and 1937, leading to another significant decrease in the money supply. The result was the 1937–38 recession within the Depression, adding insult to injury.

Economists have come to understand the Great Depression as a "perfect storm" of policy failures. A truly frightening number of destructive policies were carried out nearly simultaneously. In retrospect it seems as though whenever the economy began showing the slightest inkling of recovery, a policy would be enacted that would put a quick stop to it.

The better explanation of the Great Depression revealed it was not caused by unfettered market forces.

The better explanation of the Great Depression revealed it was not caused by unfettered market forces. There is nothing in the operation of free markets that would create depressions or even recessions. Rather, we now know that we must look for causes of these phenomena in mismanaged and erroneous government policies. And much of the credit for this change in the way economists look at the Depression must go to Friedman and Schwartz's groundbreaking work on the Fed's role. Friedman provided—and ultimately persuaded most economists of—this alternate explanation because of his insistence on honest intellectual inquiry, untainted by ideological biases. It was a courageous thing to do at the time of absolute Keynesian dominance of the economics profession, and it could have been damaging or even destructive to his career. But Friedman's personal strength of character and intellectual honesty obliged him to stick to the truth, and we are all much better for it today.

Ironically, as a result of the banking crisis of 1930–33, the Fed was granted *more* responsibilities and more control over banking. As is often the case in politics, failure was used to justify an expansion of power. That expansion of the Fed's power resulted in a great amount of economic destruction through the subsequent decades. In 1980 Milton and Rose Friedman wrote of the Fed's record over the 45 years after the banking crisis of 1930–33:

> Since 1935 the [Federal Reserve] System has presided over—and greatly contributed to—a major recession of 1937–38, a wartime and immediate postwar inflation, and a roller coaster economy since, with alternate rises and falls in inflation and decreases and increases in unemployment. Each inflationary peak and each temporary inflationary trough has been at a higher and higher level, and the average level of unemployment has gradually increased. The System has not made the same mistake that it made in 1929–1933—of permitting or fostering a monetary collapse—but it has made the opposite mistake, of fostering an unduly rapid growth in the quantity of money and so promoting inflation. In addition, it has continued, by swinging from one extreme to another, to produce not only booms but also recessions, some mild, some sharp.

The Fed's performance has improved since 1980, but that does not mean it is no longer capable of mistakes that would have devastating consequences for our lives. Friedman's work should serve as a warning of what can happen when so much power is artificially concentrated in one institution. It is for this reason that it is so vitally important that people today be taught the real story of the Great Depression. Their faith in government institutions might be considerably undermined if they understood what really happened.

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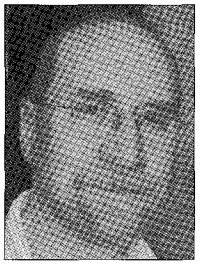

The Constitution Within

BY SHELDON RICHMAN

I've argued previously that a free society depends ultimately on people having a proper sense of just conduct. This means more than the words they recite or put on parchment. Most crucial is how they *act* and expect others, such as those in the government, to act. For this reason it is futile to put undue emphasis on written constitutions as the key to liberty. The real constitution is within—each of us. If the freedom philosophy is not inscribed in the actions of people, no constitution will help.

I am reminded of the weak protection afforded liberty through mere words by Richard Labunski's recent book, *James Madison and the Struggle for the Bill of Rights* (Oxford University Press). Labunski provides a well-written, gripping account of how James Madison kept his promise to have the first U.S. Congress amend the new Constitution in order to add a bill of rights. The Virginia ratifying convention, along with several other state conventions, was unhappy that the Constitution lacked a bill of rights. Madison and other champions of the new charter thought a declaration of rights was unnecessary and even dangerous; a government of limited, enumerated powers, they said, would already be restrained from violating rights.

But the Anti-federalists, who opposed a strong central government, and even some supporters of the Constitution, disagreed. Desperate to have his state of Virginia ratify the Constitution, Madison, a convention delegate, promised to propose the amendments recommended by the convention once the new government was set up.

But Madison had to get into Congress to keep his promise. That wouldn't be easy. As Labunski reports, Madison's bid to be one of the senators from Virginia (state legislatures elected senators in those days) was opposed by a leading Anti-federalist, Patrick Henry. Madison finished third in a field of three behind Richard Henry Lee and William Grayson, Anti-federalists both.

Madison's only chance now was to win a seat in the House of Representatives. But that election wouldn't be easy either. Madison's opponent was his friend James Monroe, who, Labunski writes, "had serious reservations about the proposed Constitution. He primarily objected to the authority of the federal government to directly tax citizens. . . . He vowed to support a bill of rights if elected." Madison's vigorous campaign against Monroe paid off with 57 percent of the vote.

Labunski portrays Madison as "initially . . . lukewarm" or even opposed to the idea of a bill of rights. At best he thought it unnecessary and believed (in Labunski's words) "the new government should have a chance to operate for a while before changes were made." Madison "doubted whether amendments—which he described as 'parchment barriers'—would really restrain the government if it was determined to abridge the liberties of citizens, but he saw little harm in offering a declaration of rights," Labunski writes.

One reason for this was Madison's fear of the alternative: a second constitutional convention, which Anti-federalists favored. Amendments, then, were the lesser evil.

When the first Congress under the Constitution convened, Madison kept his word and introduced several amendments. Labunski believes that by then Madison had become a sincere champion of a bill of rights. Others are not so sure. (It should be noted that the Anti-federalists' sincerity has also been questioned; specifically, did they campaign for a bill of rights to obscure their more fundamental objections to the nationalist Constitution? Maybe: after the amendments were adopted, some Anti-federalists denied their importance.) Nevertheless, Madison overcame the obstacles and shepherded through the House a series of amendments. These were then modified in the Senate. (The one amendment

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Madison apparently really wanted—a prohibition on *state* violation of freedom of speech, press, and religion and the right to a jury trial—was removed by the senators, agents of the state legislatures.) Eventually the ten amendments we know as the Bill of Rights were ratified by the states.

The reason for this roundabout and admittedly incomplete story is that Madison made a revealing statement during the debate on what would become the Tenth Amendment to the Constitution. As introduced and as eventually approved, it read, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people."

Thomas Tudor Tucker of South Carolina rose to add one word to this amendment: *expressly*. It thus would read: "The powers not *expressly* delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people."

Madison made a revealing statement during the debate on what would become the Tenth Amendment.

This version would have considerably narrowed the scope of the national government—and Madison objected: "[I]t was impossible to confine a government to the exercise of express powers; there must necessarily be admitted *powers by implication*, unless the constitution descended to recount every minutiae" (emphasis added).

As Labunski notes, the change would have been dramatic: "The Tucker amendment would have greatly diminished congressional authority under the 'necessary and proper' clause, which had granted Congress substantial discretion to carry out responsibilities assigned by the Constitution."

At least, it would have created tension within the document. The "necessary and proper" clause was a source of great concern to Anti-federalists. The Anti-federalist known as "Brutus" wrote, "No terms can be more indefinite than these, and it is obvious, that the legislature alone must be the judge of what laws are proper and necessary for the purpose."

Tucker's amendment failed twice, first in the committee of the whole and then in the full House, by a vote of 32–17.

Few and Defined?

Madison's position on the proposed change to the state-powers amendment raises interesting questions. In light of his plea that "there must necessarily be admitted powers by implication," what are we to make of his famous line in Federalist 45 that "The powers delegated by the proposed Constitution to the Federal Government, are few and defined"? When strict constructionists appeal to original meaning or intent, which meaning or intent have they in mind? And which counts more: what was said during deliberations over the text or what was said in newspaper articles designed to win public support for the Constitution? Is Madison a reliable ally to be cited with confidence?

Moreover, when the Constitution says Congress has the power "To make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof," where is the bright line that limits the scope of the national government?

Most important, how is something as malleable as the interpretation of legal text to protect our freedom from those who would read its phrases broadly? Such people, after all, are most likely to be attracted to government.

As Madison himself warned, "parchment barriers" inspire little confidence. For the sake of freedom there is no substitute for getting right *the constitution within*. And for that, there is no substitute for self-education and an articulate passion for liberty.

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Cultural Competence and Your Child

BY WENDY McELROY

A buzz term is appearing with increased frequency in the literature and programs surrounding education at both the public-school and university levels: cultural competence. Parents would do well to ask, "What is it, and how could it affect my children?"

The term "cultural competence" first arose in connection with health care, where a standard definition is: "services that are respectful of and responsive to the cultural and linguistic needs of the patient." This means, for example, health-care providers should be able to communicate with a non-English-speaking patient. They should take other cultural differences into account as well; for example, a clinic might arrange for a female doctor to perform a pelvic exam on a Muslim woman.

The term has migrated from health care to education, however, where its definition has shifted. In theory, cultural competence in the classroom can involve nothing more than training teachers to be more effective with children from diverse backgrounds. For example, a teacher may take a student's race into account when assigning readings in history that are most likely to interest him.

The term is notoriously vague and elastic in its application.

But the term is notoriously vague and elastic in its application. This is not surprising. After all, its two component words, "culture" and "competence," are themselves difficult to define.

Little is clarified by most of the formal definitions offered in policy statements. The one from the National Association of School Psychologists is typical: "Cultural competence is defined as a set of congruent behaviors, attitudes, and policies that come together in a system, agency, or among professionals and enables that system, agency, or those professionals to work effectively in cross-cultural situations."

The best way to slice through such obscure jargon and arrive at an understanding of cultural competence is to examine how it functions as a policy in the school system. In practice, the term often looks like political correctness applied in a new manner.

Political correctness (PC) is a term used by the New Left to refer to policies that aim at achieving "social justice" and respect for minorities. (Minorities are defined in various ways, including racially and sexually.) PC policies encourage speech or behavior that promotes these goals and discourage speech or behavior deemed to be counterproductive. Thus political correctness is a powerful tool through which schools can impose a social agenda. In this context, cultural competence acts as a filtering mechanism by which only those who agree or at least comply with the specific agenda can expect to be licensed, hired, or advanced within the system.

An example of how political correctness and cultural competence function in the public schools occurred in 2005. A Lexington, Massachusetts, school sent kindergarten students home with a "diversity school bag." It included a book with drawings of different families, including a gay couple, in order to indicate that all family arrangements are equally valid.

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A father, David Parker, objected. He insisted that teaching attitudes toward sexuality was his jurisdiction as a parent. This is a common objection: namely, that the teaching of *any* social or sexual values to children is properly the jurisdiction of parents, not the government.

Parker was arrested when he refused to leave the principal's office without the school's promise to notify him if homosexuality was going to be discussed with his son in class. He co-filed a lawsuit to challenge the school's policy. Late last February the suit was dismissed from federal court. In his decision, Chief Judge Mark L. Wolf stated that parents have no right of input into public-school curriculum. Families that don't agree with the curriculum can send their children to private schools or home-school.

The content of the controversial curriculum expresses political correctness: the goal of teaching children to accept the "proper" social value of homosexuality and heterosexuality being equally valid family choices. In Lexington, that expression includes arresting a parent who strenuously but peacefully objects.

Cultural competence has the same goal, but its methodology is different. It is a policy applied to educators that requires them to conform to standards of political correctness as a prerequisite of their licensing, hiring, or promotion. The policy is a filtering process by which public schools attempt to ensure that administrators and teachers will express the "proper" values to children. It directly targets teachers rather than students. As such, it tends to function more behind the scenes and so is less visible to parents and the public. Yet the impact on children's education is dramatic. By homogenizing the values of those who educate, other values tend to be filtered out of the information and discussion in a classroom.

Cultural competence has the same goal as political correctness, but its methodology is different.

Norman Levitt, a professor of mathematics at Rutgers University, explains, " 'Cultural competence' is, in essence, a bureaucratic weapon. 'Cultural competence,' or rather, your presumed lack thereof, is what you will be clobbered with if you are imprudent enough to challenge or merely to have qualms about 'affirmative action,' 'diversity' and 'multiculturalism,' as those principles are now espoused by their most fervent academic advocates."

In terms of the public-school system, the clobbering of teachers who might disagree is often preemptive.

Consider the case of Ed Swan. In fall 2005 Swan was a student at Washington State University's College of Education (WSU) when he was threatened with "termination" from the program because of his conservative religious and political views. Without graduating he could not obtain teaching credentials. The specific barrier to his graduation was the college's ten-point "professional dispositions evaluation" form that rated a student's "understanding of the complexities of race, power, gender, class, sexual orientation, and privilege in American society." The government of Washington state requires the WSU College of Education to attest to each student's good character before graduation; indeed, the National Council for Accreditation of Teacher Education has urged that teachers in all states be evaluated on their "dispositions," that is, on their moral stance and sense of social justice—as well as on their knowledge and skill. (Disposition evaluation is one of the main tools through which cultural competence in teachers is assured.)

Swan failed the evaluation four times. His grades were A-level but his views were unacceptable. For example, he was critical of affirmative-action programs because he believed the law should treat everyone the same. One evaluator wrote on the form, "[Mr. Swan has] revealed opinions that have caused me great concern in the areas of race, gender, sexual orientation, and privilege."

WSU's threat of expelling Swan came with a loophole. If he signed a contract with the college to attend diversity training and agreed to their continuing scrutiny of his "disposition," then he could continue through the program. Instead, Swan contacted the Foundation for Individual Rights in Education, which is renowned for taking legal action on behalf of students whose constitutional rights are being violated by the educational

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system. The contract demand was dropped. Swan was allowed to graduate.

Ideological Imbalance

WSU's "disposition evaluation" is not uncommon. Robert K. C. Johnson, professor of history at Boston College, commented in an article in *Inside Higher Education* (May 23, 2005) on the impact that political correctness has had on teacher-training programs. Johnson wrote, "The faculty's ideological imbalance has allowed three factors—a new accreditation policy, changes in how students are evaluated and curricular orientation around a theme of 'social justice'—to impose a de facto political litmus test on the next cohort of public school teachers."

Johnson offered several examples of how specific universities have embedded "social justice" requirements into their teacher-training programs; he could have offered many more. In 2002 the National Council for Accreditation of Teacher Education changed its accreditation requirements to require dozens of teacher-training programs to measure each student's disposition on "social justice." The revised accreditation requirement read, in part, "Unit assessments must also reflect the dispositions identified in its conceptual framework and in professional and state standards. . . . For example, if the unit has described its vision for teacher preparation as 'Teachers as agents of change' and has indicated that a commitment to social justice is one disposition it expects of teachers who can become agents of change, then it is expected that unit assessments include some measure of a candidate's commitment to social justice."

Most university teacher-training programs now include some form of official commitment to "social justice." (A partial list is available at http://tinyurl.com/3ddmlz.) Three of the examples offered by Johnson provide a sense of the ideological substance of these program commitments.

- The University of Kansas program states that students should be "more global than national and concerned with ideals such as world peace, social justice, respect for diversity and preservation of the environment."
- Marquette's program is committed "to social justice in schools and society" and to producing teachers who "transcend the negative effects of the dominant culture."
- The University of Toledo states, "Education is our prime vehicle for creating the 'just' society," since "we are preparing citizens to lead productive lives in a democratic society characterized by social justice."

These "social justice" commitments and requirements function as a form of ideological prior restraint on which views will be expressed in a classroom.

In recent years, "cultural competence" has achieved some legislative momentum.

In recent years, "cultural competence" has achieved some legislative momentum. For example, in its 2005 session, the Oregon Senate considered SB50, which would have authorized the establishment of "standards for cultural competency and require an applicant for a teaching license to meet those standards." In short, teachers would be required to advocate a specific vision of social justice to be licensed. (Although Oregon is only one of dozens of states exploring and implementing "cultural competency," it seems to be on the cutting edge.)

Defining "Cultural Competence"

Some of the specifics of what constitute "social justice" and "equity" emerged from a May 2004 summit sponsored by the Oregon Department of Education. The summit's purpose was to develop a specific proposal on how to implement "cultural competence" in education, from kindergarten to university.

Attended by "over 100 of the State's leaders in education," the summit split into various discussion tables that evolved definitions and specifics. One table reported that "cultural competence" "entails actively challenging the status quo. . . . [O]ne table noted the need to incorporate institutionalized notions of power, privilege, and oppression into the definition. . . . Thus, for

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many, cultural competence is transformative and political." In practical terms, a "culturally competent" teacher "advocates for social justice"; the teacher "exhibits awareness of key concepts" such as "privilege, affirmative action"; he or she must not only "apply cultural competencies" but also "believe it."

In its five-year projection the summit proposed to "revise rules to achieve high cultural standards including possible revocation of licensure for culturally incompetent behavior" and "to require cultural competence for license renewal." In short, even teachers who were licensed might have to toe an ideological line in order to retain their licenses.

In March 2005 the *Corvallis* (Oregon) *Gazette Times* reported, "A quiet effort by state officials to require that all newly certified Oregon teachers be 'culturally competent' looks to be dead-on-arrival in the Republican-controlled House, despite firm support from education advocates." The House stumbled over the definition of "cultural competence" from the summit, which was almost certainly the standard that would have been applied under law.

The words "quiet effort" in the news story are all-important. Parents are generally unaware of the policies under which their children's teachers are trained or licensed. When the specifics of those policies become known, there is often a backlash such as that expressed by Dave Mowry, a legislative coordinator for Rep. Linda Flores. On May 11, 2005, Mowry wrote in the *Oregonian*, "[T]he Teachers Standards and Practices Commission and the Oregon Department of Education are backtracking, saying they really didn't mean it. . . . Then why is it in the definition and the five-year plan and on the commission's Web site?"

Oregon may be an extreme example, but PC policies have a tendency to become extreme . . . and quickly so.

Parents are generally unaware of the policies under which their children's teachers are trained or licensed.

The best protection for children against political correctness is for parents to be aware. Happily this seems to be happening more and more. As it does, strange ironies can arise. On January 22 the *Ironwood Daily Globe* reported that parents in the small school district of Ontonagon, Michigan, were taking Judge Wolf's advice and homeschooling their children. The result? The newspaper continued, "Board of Education President Dean Juntunen made an appeal Monday for homeschoolers to enroll their children in the Ontonagon Area School District. Juntunen explained that due to a loss of student population this year and inadequate state funding, 'we will be using up our financial cushion.' "

Cultural competence is an argument for homeschooling.

Evenings at FEE

Saturday, October 6, 2007
John Anthony Krogdahl Memorial Lecture
William H. "Chip" Mellor
President and General Counsel, Institute for Justice

Saturday, November 10, 2007
Andrei Illarionov
Former Chief Economic Adviser to President Putin (Russian Federation)

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Lee's Legion of Lessons

BY BECKY AKERS

The state is a harsh taskmaster with a taste for eating its own. A man may devote much of his life to its violence only to find himself on the receiving end one day. The Bible warns that "all those who take up the sword perish by the sword." Yet distressing numbers of folks try to beat those odds for the sake of the power and wealth swords bring.

One such gambler took up his sword in the best of causes. Revolutionary War hero Henry "Light-Horse Harry" Lee commanded a unit in the Continental Army and helped found a freer country. But he was a devotee of the state and its trademark, force.

Nor was he alone in this paradox. Many of the Continental Army's officers who pledged their "lives, fortunes and sacred honor" to fight British tyranny in the 1770s imposed their own when they rose to power in the new country. Even the man whom Lee eulogized as "First in war—first in peace—and first in the hearts of his countrymen" for leading an army against British taxation crushed an American tax revolt when he was president.

Henry "Light-Horse Harry" Lee
Portrait by Charles Willson Peale, 1782. Independence National Historical Park

The motives that drove George Washington and other Founding Fathers to forget their revolutionary ideals can be hard to discern. Not in Lee's case. His struggles are big, brash, transparent, and he paid a full and terrible price. Not only did his political principles eventually get him killed; his son Robert Edward would one day defy the very state his father championed.

Harry Lee was just 20 years old in 1776 when he enlisted with the Continental Army. Unlike other armies, the Continentals were not drafted, resentful ranks of the poor and powerless, kidnapped from fields and families to further a king's ambitions. Rather, they rose from the people themselves as they defended their rights that unforgettable spring of 1775. Nor did any ruler summon them to war. Instead, their neighbors Paul Revere and William Dawes warned them that Redcoats were marching to seize a colonial arsenal at Concord. Hundreds and then thousands of farmers, merchants, and laborers not only chased the soldiers back to their base in Boston but bivouacked around the city to keep them there.

From that was born the Continental Army. Though the Continental Congress was just a few years older, it adopted the army that June and appointed George Washington its commander.

Ironically, the Continental Congress resorted to the very tactics its army fought. It taxed—or tried to: it was too weak to do more than ask the states to tax on its behalf. And it continued the Non-Importation Agreements of the 1760s in which the colonists promised to boycott British manufactures. They promised that their neighbors would too, and then searched the homes, shops, and ships of those they suspected of breaking the "agreement." Their victims wondered why a warrantless search by one's neighbors should be preferred to a warrantless search by the King's customs

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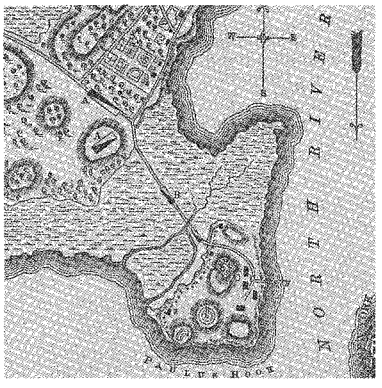
agents: "tradesmen" in Boston asserted their right "to eat, drink and wear whatever we can honestly procure by our own labour; and to buy and sell when and where we please," regardless of agreements or Congress.

These inconsistencies may have perplexed some Continental officers, but not Captain Lee. He seems to have loved the Continental Army and even the war itself rather than the principles behind both; he described himself as "wedded to my sword" and "affectionately wedded to my officers & troops." One of his first exploits came during the horrific winter at Valley Forge, when he and seven other men held off the 200 Redcoats surrounding their quarters a few miles from the main camp. After killing three of the enemy, Lee shouted, "Fire away, men, here comes our infantry; we will have them all, God damn them!" The British believed him and scattered, making Lee the talk of the starving, shivering army.

The Captain eventually became a major. In 1779 he again proved his mettle by capturing Paulus Hook, one of the forts guarding the British stronghold of New York City. Today Paulus Hook is a neighborhood in the industrial port of Jersey City, N.J., but in the eighteenth century it sat at the end of a promontory that submerged at high tide. Lee planned to surprise its 400 defenders with a nighttime attack. This required intricate calculations of lunar phases, complete silence from his own 400 men, and trundling wagons over the dark, rutted roads so that spies would mistake his midnight march for a foraging expedition. Half of Lee's troops lost their way and missed the attack, but the other half captured the fort's garrison without a single casualty.



In 1779 Lee proved his mettle by capturing Paulus Hook, one of the forts guarding the British stronghold of New York City.

Meanwhile, some of the army's dragoons had been detached as an independent command under Lee. "Lee's Legion" became famous for its speed, skill, and loyalty: the high rates of desertion that depleted the rest of the Continental Army never drained the Legion. Lee loved and was beloved by his men. This was despite—or perhaps because of—his assumption that they were overgrown children, unfit to look after themselves and needing a strong leader. Lee transmuted this paternalism into a detailed concern for his troops. Other officers might not care how often their men bathed; Lee issued orders that kept his dragoons clean and healthy, then outfitted and dressed them at his own expense. "Lieut. Col. Henry Lee," one of the army's surgeons remembered, "was distinguished in our Revolutionary army, for the health and vigor of his corps. *I never saw one of his men* in the general hospital; and it was proverbial in camp, that Lee's men and horses were always ready for action." (Original emphasis.)

Their most valuable "action" came during the war's last years, when the Legion helped General Nathanael Greene chase the Redcoats from the Carolinas. The Revolution's northern campaigns had been brutal and bloody, but those of the south exceeded them. Lee's Legion was in the thick of this warfare; it fought at Guilford Court House and at Eutaw Springs. More often, Lee's force was detached from Greene's for raids, and then the savagery raged without limits. Perhaps the Legion's most shocking atrocity was "Pyle's Hacking Match."

Lee's dragoons were pursuing British Colonel Banastre Tarleton's band in North Carolina. In one of those wartime coincidences, Lee's and Tarleton's men both wore green uniforms. That led scouts from a Loyalist troop to assume they were among friends when they stumbled across the Legion. Lee exploited their mistake. He sent them back to their column with a request to clear the road so that their commander and his men might pass swiftly.

The 400 unsuspecting Loyalists lined the road on both sides, cheering "Tarleton's" regiment. Then the joke soured. Lee later insisted that a Loyalist officer, recognizing the deception, ordered his troops to attack and that his own men killed in self-defense. But many people then and now think Lee planned all along to murder the Loyalists. Why else would he have engaged them? He could hardly burden himself with prisoners while galloping after Tarleton. The lopsided casualties also point to premeditation: when the bayoneting stopped, 90 Loyalists were dead with scores more fatally wounded. Lee's Legion lost only a horse.

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Lee's Change of Heart

By February 1782 the soldier married to his sword wanted a divorce. Lee had discovered firsthand that warfare was not the splendor he had thought, that its brutality warped those bodies and souls it didn't kill outright. He had executed deserters; in 1779, while patrolling the American lines, he had even severed and displayed the head of one victim as a warning. His men killed 18 British dragoons before breakfast one cold February morning in retaliation for their slaughter of the Legion's unarmed bugler. On at least one occasion, before the battle at Guilford Court House, Lee tortured a prisoner for information (it didn't work any better then than now: he learned nothing), and on another, his troops hanged three prisoners without trial.

Lee took these memories back to civilian life along with the conviction that Americans needed a strong centralized government to control their brutal natures. He held one political office after another, strengthening the state in whatever branch he found himself. He sat in Virginia's legislature, represented the state in the Continental Congress from 1785 to 1789, was governor for three terms, and then went to the U.S. Congress.

Like most of his contemporaries, Lee considered a republic the state's ideal form.

Like most of his contemporaries, Lee considered a republic the state's ideal form. Eighteenth-century Americans revered republics as the key to political paradise, much as their descendants do democracy. Ancient Rome and some of the Greek city-states had been republics; that would have been enough by itself to sway the classically schooled Founders. But the few republics since antiquity also seemed freer and more prosperous than the monarchies surrounding them.

Republics require virtuous citizens, or so the theory went. That meant most Americans fighting for freedom wanted government to enforce virtue lest the republic degenerate to tyranny. Lee and others went further: the state should actively make citizens virtuous. "It is high time," he once wrote George Washington, "that our people be coerced to habits of industry." The wise state must discipline citizens, especially during war. In April 1780 Lee and three other officers announced in a Philadelphia newspaper that they hoped to "curb the spirit of insolence and audacity" among those Americans who weren't as dedicated to the Cause as the quartet thought they should be. They wanted to crush "a spirit of resistance, which . . . receives encouragement from the lenity of Governments, founded on principles of universal liberty and benevolence." They would also "give energy . . . to the future operations of Government."

Six years later Lee worked tirelessly for a Constitutional Convention and its promise of a strong central state. "The period seems to be fast approaching," he insisted, "when the people of these U. States must determine to establish a permanent *capable* government or submit to the horrors of anarchy and licentiousness." (Emphasis added.) Discounting all history, he "dread[ed] more from the licentiousness of the people than from the bad government of rulers."

Many republicans seemed to forget that republics were made for man, not man for the republic. John Adams found few aspects of life that couldn't be turned to the republic's good. He exhorted his wife to inculcate virtue in their children, not because virtue is desirable as an end in itself but because virtuous children became better citizens: "The Benevolence, Charity, Capacity and Industry which exerted in private Life, would make a family, a Parish or a Town Happy, employed upon a larger Scale . . . might secure whole Nations and Generations from Misery, Want and Contempt. Public Virtues, and political Qualities therefore should be incessantly cherished in our Children." Republicans even believed that happiness depended not on personality or circumstances but on the character of the state. Lee asserted that "our national independence, and consequently our individual liberty . . . our peace and our happiness depend entirely on maintaining our union."

As with some of the other Founders and many modern Americans, Lee's republican politics were borrowed from Plato. A few choice men of superior virtue could and should guard the morals, actions, probably the speech, and even the thoughts of everyone else. These few included Lee, naturally. And if a few were born to

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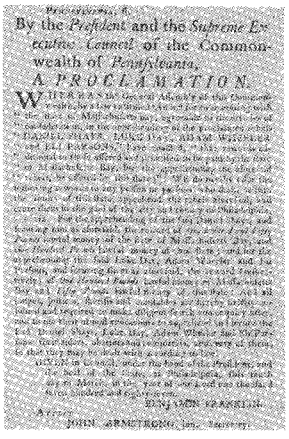
lead, many, such as his troops and his political constituents, were born to follow.

Federalist Leadership

This ideology and his heroism on the battlefield catapulted Lee to leadership in the Federalist Party. His experiences during the war "proved" that without strong leaders men degenerate into beasts, violent and destructive. Perhaps that explains why Lee and other Revolutionary officers who became Federalists prized peace more than they did liberty. Nor did they yearn for peace as the moral alternative to killing and plundering. Rather, they cherished it for the prosperity it brings in its wake. They wanted a strong centralized government that could crush dissent or anything else threatening *their* peace and *their* prosperity.

It was their prosperity, and theirs alone, because they grew rich thanks to protectionist laws and state-sanctioned enterprises. Without the fairness the market decrees, without its channeling of self-interest for the good of all, their fortunes piled up at others' expense. Predictably, those others protested, sometimes violently, destroying the peace that centralizers considered essential to prosperity. Neither Lee nor his fellows appreciated the irony.


By the *President* and the *Supreme Executive Council* of the Commonwealth of *Pennsylvania*,
A PROCLAMATION.

Proclamation by the Commonwealth of Pennsylvania offering reward for the capture of Daniel Shays and three of his cohorts.
(Pennsylvania Journal, May 19, 1787. Library of Congress.)

One of those state-sanctioned enterprises combined with centralizing politics to spawn the Constitutional Convention. Lee and other Revolutionary heroes, including George Washington, had invested with the Potomac Company. This enterprise hoped to dig canals around the Great Falls in the Potomac River. Theoretically, the river could then carry trade from the country's interior to the east—trade currently floating down the Mississippi and enriching western merchants. As Lee wrote Washington, "[N]o event comprehends more fully the strength and future consequence of our particular country than the cementing to the interest of Virginia by the strong tie of commerce the western world."

But Mississippi merchants and waterfalls were not the only obstacles to the company's dreams. There were also Daniel Shays and the farmers of western Massachusetts, most of whom were Revolutionary veterans. These men could not pay the taxes their new state had imposed and were losing their homes to foreclosure. They defended themselves by shutting down, from September 1786 through the first weeks of 1787, the courts that were evicting them.

They also freed imprisoned debtors. Not surprisingly, this alarmed creditors. There hadn't been much love lost between the farmers and their creditors in the first place, but freeing folks who owed them money increased creditors' zest for portraying the rebels as deadbeats, determined to defraud not only the state but honest merchants as well.

The centralizers insisted Shays and his "lawless banditti" would destroy the country. They magnified the revolt into a threat imperiling not only Massachusetts's politicians but the whole of American civilization. Lee had "new information" that the "insurgents" were "forming connexions with their neighboring states and the Vermontese." In case "the Vermontese" weren't scary enough, Lee trotted out the biggest bogeyman of all: "We have authentic information that they contemplate a re-union with G. Britain. . . ." Massachusetts jurist James Sullivan thought that "all our fine-spun ideas of democratical governments being founded in the virtue of the people are vanished, and . . . we find Americans like other people obliged by force only to yield obedience to the laws." John and Abigail Adams were in London now while John represented America at the British court, but distance did not improve their perspective. Abigail, too, thought Shays and his farmers would "shear" America's "glory" and "blast" its "laurels. "Is it a trifling matter to destroy a government?" she asked her sister. "Will my countrymen justify the maxim of tyrants, that mankind are not made for freedom?"

Centralizers confused a refusal to pay taxes with lawlessness and immorality. But Americans had not taken to murdering one another in the streets, nor were they clubbing the weak and elderly over their heads for their wallets. Instead, men who had fought hard against taxa-

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tion were doing so again, though the tax-gatherers were on their own side of the Atlantic this time. But the centralizers were too busy wringing their hands over the breakdown of society to grasp this distinction.

Centralizers also conflated liberty and government, so that threats to government were threats to liberty. "Instead of that laudable spirit which you approve," Abigail Adams wrote Thomas Jefferson, "which makes a people watchful over their liberties and alert in defense of them, these mobbish insurgents are for sapping the foundation and destroying the whole fabric at once." Harry Lee drew the obvious centralizing lesson. "A continuance of our present feeble political form is pregnant with daily evils & must drive us at last to a change." Clearly, the country would never survive without a strong central government.

Constitutional Convention

And so the shareholders clamored for a convention to "revise" the Articles of Confederation. Lee opined that "the imbecility of the Confederation" was a "defective system which can never make us happy at home nor respectable abroad." The country needed a state strong enough to make it wealthy. Patrick Henry thundered back, "You are not to inquire how your trade may be increased, nor how you are to become a great and powerful people, but how your liberties can be secured."

Sadly, investors were more interested in securing their profits than their liberties. They claimed that the confederated government under the Articles was too weak to smash Shays and other protesters—despite the fact that militia dispersed the rebelling farmers in February 1787.

Thanks to their scare tactics and prestige, the shareholders got their convention as well as a Constitution authorizing a centralized government. With its power to tax, that government could crush anyone defying its edicts: according to the Coast Guard, the first Congress established the service expressly "to enforce tariff and trade laws, prevent smuggling, and protect the collection of the Federal revenue."

In 1794 the fledgling federal government taxed whiskey and provoked another rebellion. This time it was farmers in western Pennsylvania who took up arms. And this time, too, Federalists mistook a tax protest for lawlessness: "If we permit our laws to be violated with impunity," Lee reasoned, "farewel to order farewel to liberty & all the political happiness we enjoy."

Most farmers in the rebelling counties distilled their grain for easier transportation to market. They resented a tax on their profits as much as Potomac Company investors resented political unrest and its threat to theirs. Like Shays' rebels, many of these were veterans who had warred against taxes 20 years earlier, just as Harry Lee had. Lee even admitted that taxing whiskey was bad policy. Yet when President Washington ordered 13,000 militia from Pennsylvania, New Jersey, Maryland, and Virginia to march against the rebels, Lee sought the command. He justified this as the Federalists usually did: he equated liberty with government. That turned the protest into a "wicked & daring attempt to destroy our government & with it our liberty."

In 1794 the fledgling federal government taxed whiskey and provoked another rebellion.

But it was Lee whose "wicked & daring attempt to destroy. . . our liberty" sent troops estimated at double the farmers' numbers marching against them. Rumors of this overwhelming force scattered the rebels long before the army arrived, so thoroughly that soldiers had to hunt some for trial. Federalists gloated. John Adams wrote, "An army of 15,000 militia so easily raised from four states only, to go upon such an enterprise, ought to be a terrible phenomenon to Anti-Federal citizens. . . . Anti-Federalism . . . and rebellion are dropping their heads very much discouraged."

The Federalist Party of the late eighteenth and early nineteenth centuries roughly resembled today's Republican Party, with its emphasis on law and order and its defense of authority. Federalists disapproved of the war looming in 1812 for fear of economic disruption. Opposing them was the Republican Party, confusingly enough, founded by Thomas Jefferson and James Madison. Their members resembled modern Democrats because they were laborers and immigrants. Republicans wanted war with England, especially those Republicans who lived and worked in coastal cities, because

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the British were impressing sailors and attacking commercial ships at sea, threatening Republican jobs.

The port city of Baltimore was largely Republican, but it was home to a Federalist newspaper, published by Alexander Hanson, with the fence-straddling name *Federal Republican*. After a handful of incendiary issues, a Republican mob demolished the newspaper's offices. Then they drove Hanson out of town. He vowed to return with some friends. The arch-Federalist Lee kissed his 5-year-old son, Robert E., goodbye and went to help.

Hanson distributed more copies of his newspaper on July 27, 1812. That summoned the mob. Overwhelmingly outnumbered, the Federalists barricaded themselves inside Hanson's home. Those within "Fort Hanson" looked to Harry Lee for guidance. After all, Hanson reminded them, this was the hero "who, during the revolutionary war, took possession of a house in which he repelled with only ten men a large body of British Regulars." Lee named a commander for each room and stationed his "troops" at the windows. They held off their assailants until dark. Then the Republicans stormed the house. That brought out the city's militia, which escorted the beleaguered Federalists to jail.

The Republicans followed, shouting outside the prison that they would kill its inmates. Then they broke in. The Federalists still had their pistols, yet Lee convinced them not to fire on their attackers. Astoundingly, he advised turning the weapons on one another. This leader who disdained the people, who thought himself and other rulers superior to them, argued "glowingly and with much emphasis" (according to one newspaper) that the Federalists would die by worthy hands that way. The others weren't willing to go that far. They laid down their guns.

Predictably, the mob beat, stabbed, strangled, and maimed them. The Republicans continued their punishment even after the Federalists lost consciousness. In their pro-war fury, the assailants slit their victims' cheeks and noses and pried open eyes to pour hot wax into them. Finally, believing that all the Federalists were dead (in reality, only one was), the Republicans left after singing a nationalistic chorus: "We'll feather and tar every damned British tory/And this is the way for American glory."

Friends took Lee and the others to a hospital about a mile distant. He never recovered though he lived another six years, crippled with pain and far from home. Convinced that a milder climate helped his "mob injuries," Lee spent most of that time in the Caribbean. He eventually took a ship to return to his family, but he made it only as far as Georgia and the mansion of his old Revolutionary cohort, Nathanael Greene. "Absorbed in misery & tortured with pain," as Lee put it, he died there on March 25, 1818, a cautionary tale for all who trust in the state.

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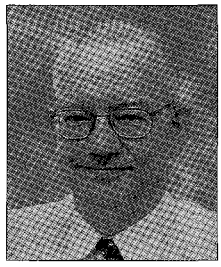
Time to Revive "Individualism"?



BY STEPHEN DAVIES

One problem facing people who broadly favor smaller, limited government; private property; and free exchange is what to call themselves. Historically the word "liberal" was the answer and still is in many parts of continental Europe. However, in the Anglophone world, particularly the United States, the word has now come to refer to those who favor an interventionist role for government and a broadly collectivist approach to politics and culture—an almost complete reversal of meaning.

There have been efforts to reclaim the term by those who sometimes describe themselves as "old-fashioned liberals," but these have not succeeded. Faced with this situation, supporters of the original liberal position have resorted to a number of linguistic expedients. For a while many adopted the label "conservative," which had been previously attached to some of their most steadfast opponents. This nomenclature, while widely used in the United States, has never caught on elsewhere and has not fully taken hold even there. This was partly because many old-style liberals refused to use it and also because the right to the label was vigorously contested by what we may call old-style or "traditionalist" conservatives, who claimed a right of first usage.

More recently most advocates of strictly limited government have settled on the term "libertarian," while others prefer the more learned-sounding "classical liberal." (I have used both terms myself.)

However, these alternatives still present problems and are arguably not satisfactory. As F. A. Hayek pointed out, the term "conservative" not only brings allusions to a tradition of thought that while distinguished is not "liberal" in the older sense, it also carries implications of a mistrust of reason and skepticism about change combined with a reverence for the past and an affection for such things as tradition, hierarchy, and authority, none of which are core parts of the historic liberal tradition, with its emphasis on individual liberty, innovation, and personal responsibility.

The expression "classical liberal" is much better but is clumsy and has the clear implication that the ideas are some kind of preserved tradition rather than a developing body of thought. "Libertarian" is the most popular (and is now found on Facebook!) but has disadvantages of its own. As well as being an ugly word, it has the implication for anyone familiar with its history that the person using it as a label is an anarchist. In most cases this is not true and causes confusion.

More seriously, the term "libertarian" draws attention to only one part of a much larger philosophy: opposition to extensive government and political power. This is indeed a central part of the philosophy, but it is not the whole of it and use of the term tends to lead to the other elements being slighted or ignored.

Is this really a problem? If so, is it serious enough to warrant any thought? Clearly this isn't the most serious difficulty, but history and political experience suggest that it is more serious than one might imagine. All words, and political labels in particular, come with a whole range of historical and cultural associations and secondary meanings that have a significant effect on the way people respond to individuals and ideas associated with them. Some labels can come to have a series of associations so negative that it is impossible to use them to identify your argument if you want to persuade people.

In the United States, for example, any argument for greater decentralization and less centralization is doomed if linked with the expression "states' rights" because of that term's association with racial privilege and segregation. Other words carry a whole set of broadly positive associations, and this makes neutrals more favorably disposed toward the arguments identified with them. This was once very much the case with "liberal," which is why people made enormous and successful efforts to appropriate it.

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There is a term available that is seldom used now, but that was once the predominant and accepted label for the set of ideas related to personal freedom and responsibility. This is "individualism"—or rather "Individualism." Before the mid-nineteenth century the word "individualism" was rarely used and when it was, it was usually as a pejorative, with connotations of selfishness and irresponsibility. However, from about the 1850s onwards a whole series of writers on both sides of the Atlantic (and not just in the English-speaking world) began to use the word and associated ones such as "individuality" in a positive way. From the 1870s onwards it came to be capitalized and used as a political label.

The period between roughly 1880 and 1912 saw an intense debate in Britain and the British Empire, the United States, and France in particular between two fairly well-defined and -organized intellectual camps, the self-defined Individualists and Collectivists. The second group included Fabian socialists and American Progressives (who went on to capture the word "liberal"), but also included conservative imperialists and advocates of policies such as nativism and racism, as well as the wing of the Republican party represented by figures such as Theodore Roosevelt. (Many of the socialist and "left-wing" progressives were also supporters of imperialism, racism, and policies such as eugenics—something now often forgotten.) The Individualists were the advocates of minimal government and opposition to empire and indeed all forms of collectivism, whether racial or national. They were also associated with a number of other movements, above all feminism, with many leading feminists of the time strongly self-identified as Individualists. The heart of the argument was about whether government has a duty to promote a general collective welfare, defined as something above and beyond the pursuit of individual happiness, and whether there is some collective identity that trumps the claims of actual individual men and women.

Term Disappears

Up until the 1930s this division between Individualism and Collectivism was generally understood to be one of the basic distinctions in modern politics. As late as the 1930s the opposition to the New Deal came largely from people who identified themselves as individualists and as belonging to what by then was a well-established intellectual tradition. Then quite suddenly in the 1940s and 1950s the term disappeared from general use as a political label and reverted to a more general, uncapitalized use. Why this happened is a mystery, but it was clearly part of the general reshuffling of "right wing" politics that took place with the advent of the Cold War.

The Individualists were the advocates of minimal government and opposition to empire and indeed all forms of collectivism, whether racial or national.

Apart from its historical associations, now largely forgotten but ripe for rediscovery, Individualism has a number of advantages over other terms in the contemporary world. It has broadly positive connotations for many people but also makes divisions between those who respond favorably and others who do not more clear cut and obvious. As such it sends a clear message. It has a wide range of meanings and associations in addition to implying a clear view about government and its role, as it also has implications for one's attitudes toward culture, philosophy, and social life in general. It does not imply that if you define yourself in this way then you are a supporter of the status quo (you may be, but that isn't the clearly understood implication of the word).

Above all it relates to what is increasingly the real debate in modern societies. Since the fall of the Berlin Wall and the collapse of the Soviet Union, we have increasingly reverted to the debate of the period between 1880 and 1914 between increasingly aggressive collectivists of many kinds on the one side and defenders of individual autonomy and voluntary choice on the other. We may say, and not tongue in cheek, "Individualists of the world unite." It's time to dust off that label and revive it.

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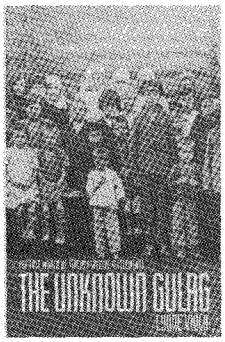
Book Reviews

The Unknown Gulag: The Lost World of Stalin's Special Settlements

by Lynne Viola

Oxford University Press • 2007 • 278 pages • $30.00

Reviewed by Richard M. Ebeling



In *The Harvest of Sorrow* (1986), historian Robert Conquest estimated that in the early 1930s as many as nine million people may have died during the forced collectivization of land in the Soviet Union. They were shot, tortured, or starved to death. Peasant resistance to the state's seizure of their farms was dealt with by Stalin through a planned famine that finally broke all countryside opposition to the march into the bright and beautiful socialist future.

In 1931 Lady Astor of Great Britain was privileged with an audience with Stalin in the Kremlin. She point-blank asked him, "And how long are you going to go on killing people?" Stalin calmly replied, "As long as it is necessary. . . . The violent death of a large number of people was necessary before the Communist State could be firmly established."

One of the few Western journalists of the time who was able to get outside Moscow to visit some of the famine areas in southern European Russia and Ukraine was William Henry Chamberlin. In a series of articles that he wrote on his return to the United States in 1934, he reported seeing skeleton-like undernourished children, adults barely able to walk from hunger, and hushed whispers of cannibalism in a gruesome attempt by some to stay alive. Red Army detachments and units of the secret police attempted to block all roads into these areas to prevent any of the victims from escaping or their friends and family members in the cities from bringing food to those condemned to this terrible fate.

The main target of Stalin's wrath was the supposedly richer peasants known as kulaks, who were said to be the main opponents and resisters of collectivization. They were labeled the countryside "capitalist class" and therefore the primary "enemies of the people."

Stalin's other method of dealing with the kulaks was compulsory exile to some of the harshest and least inhabitable parts of northern European Russia. These victims are the subject of Lynne Viola's book, *The Unknown Gulag*, the tragic details of which have never been thoroughly studied before. She estimates that between 1930 and 1933, well over two million people were transported to these faraway regions of the Soviet state.

Hundreds of young Communist Party members from the cities, who knew nothing about the peasantry or farming, were sent to the rural areas to assist in the collectivization. Indoctrinated by the party's propaganda that the kulaks were the stumbling block to "building socialism," these communist thugs intimidated and violently abused people when and how they wanted. Inspired by the idea of production quotas under the newly instituted five-year plan, they set up quotas for killing and exiling peasants as quantitative indicators of breaking the resistance to state-run collective farming.

Like much in the Soviet planned society, the details of exiling millions of people had not been thought out beforehand: how to transport and feed hundreds of thousands of families, how they would build shelter, what types of work they would be required to do once they reached their assigned locations. But trains were arranged, and these hapless people were crowded into cattle cars with barely room to stand, little or no food, and no hygienic facilities. The journeys would take two or more weeks to the north Russia territories around the towns of Archangel, Vologda, and Kotlas, or across the Ural Mountains to northern Siberia.

Only slowly were party commissions appointed to decide what was to be done with the exiles. In their secret reports to senior party officials, the heads of these commissions admitted that disease, starvation, and bitter cold weather were decimating the kulak families. It was reported that during a two-month period in 1931, more than 3,000 children who succumbed to the harsh conditions were buried in the Vologda area.

Stalin's dream was to use the vast army of slave laborers to work in the deep forests of the north to supply

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lumber for construction projects and to mine for the rich minerals buried above the Arctic Circle. The exiled families were to be divided into groups of 1,500 people and made to construct permanent settlements for themselves in the forest and mining areas. Their sentences would be indeterminate so they might be used for as long as it served the interests of the state. If in the process many died, the multifamily barracks in these settlements would simply be filled with the next group of slave laborers.

Violence was the main tool to maintain order. One of these exiles said, "Here they beat us horribly. . . . They beat us with revolvers while we slept. The commandant broke one man's skull. . . . There is no defense from anyone. We will likely perish here." Some attempted to escape; by 1933 the authorities estimated that several hundred thousand had tried. But most either didn't make it through the frigid land or were recaptured and usually sent to a camp worse than the first one.

By the end of 1931 "the plan" for the design and construction of these settlements and the work to be done there had been drawn up to the smallest detail. But as Viola explains, "It represented an 'imagined future'—laid out in endless plans, reports, memos, figures, tables, graphs, and budgets—superimposed on the present-day realities of the Soviet hinterlands. . . . Reality was vastly different—untidy, unmanaged, and shaped more by geographical, economic, and cultural realities than by Moscow's seeming omnipotence."

These "imagined" exile-populated settlements, which she reminds us were nothing more than "a shoddily constructed institution of forced labor," were brought down by the nationwide government-caused famine of 1933–1934. Because of the failure of "the plan" and the shortage of food and materials, most of them were closed.

But the human cost was horrific. Out of the more than two million exiles sent to these areas, by 1934 only 973,000 had survived. Subtracting those who succeeded in escaping, close to 50 percent had died. Sometimes, however, there is a perverse justice in the world. Two of the leading party officials responsible for the planning and initial execution of this forced-labor system were themselves arrested during Stalin's Great Purges and executed in 1937 as "enemies of the people."

Most of the kulaks who survived were merely transferred to the larger and far more terrifying and lethal Gulag system of labor camps that stretched across the entire length of the Soviet Union and consumed tens of millions of lives during the nearly 75 years of the nightmare socialist experiment.

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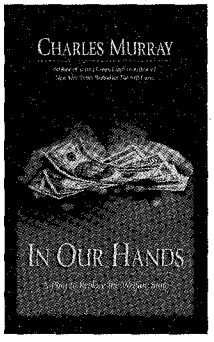
In Our Hands: A Plan to Replace the Welfare State

by Charles Murray
AEI Press • 2006 • 140 pages • $20.00

Reviewed by Michael Tanner



If, as Richard Weaver famously wrote, "ideas have consequences," then Charles Murray is a truly consequential man. Only a handful of thinkers over the past quarter century have had as much impact on public policy. It was his 1984 classic, *Losing Ground*, that led to a bipartisan consensus about the failure of the Great Society welfare state. Now, ten years after the welfare reform that owes its existence to Murray's ideas, he is back with a thought-provoking approach to government antipoverty policies.

Murray's latest book, *In Our Hands: A Plan to Replace the Welfare State*, provides a blueprint for doing just that.

By Murray's estimate, federal, state, and local governments spend roughly $522 billion per year on antipoverty programs, yet poverty rates have barely budged over the past 40 years. As he notes, "Only government could spend money so ineffectually." His answer, therefore, is to take the money away from the government and give it directly to the people.

Murray would abolish all welfare programs. He would also terminate all other government transfer programs: Social Security, Medicare, and even agricultural price supports. In their place he would provide every American citizen with an annual grant of $10,000 to do with as he or she pleases. The grant would be untaxed for those earning less than $25,000 per year, thereby establishing a floor of national income, and entirely

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taxed back for high-income earners. There would be no work requirements or other restrictions. All Americans would get that check—but nothing else.

This, of course, wouldn't actually abolish welfare. In fact, Murray's proposal would initially be more expensive than current programs. Yet it would sweep away the vast edifice of the modern welfare state—not just the agencies and bureaucrats who administer the dozens of overlapping aid programs, but the rules, regulations, and restrictions that make the welfare state as much the overseer of the poor's behavior as a dispenser of alms. At a time when big-government conservatives seek to use welfare as a weapon to micromanage the lives of the poor, this comes as a breath of fresh air.

For example, it is widely acknowledged that existing welfare laws act as a disincentive to family formation. Recipients are frequently penalized for marrying. Big-government conservatives would counteract this by creating federal programs to teach the poor about the benefits of marriage, or even bribe welfare mothers into marrying with the offer of additional benefits.

Murray's plan avoids all this. Those who act responsibly, who marry, save for their retirement, purchase health insurance, and so on would be better off. Those who make irresponsible choices would be forced to fall back on private charity. Murray accepts the inevitability that modern societies will redistribute income, but doesn't want them to run people's lives.

Yet Murray's proposal is undermined by one simple flaw. His plan would establish as both a legal and philosophical concept that every American citizen is entitled to a minimum income—exacted from the taxpayers. Once that "right" is established, the political process will inevitably expand it. Murray argues that $10,000 is the correct amount. But how long before some politician comes along and says, "No one can live on $10,000. We need to make it $11,000." Soon another politician, not wanting to be thought less compassionate than the first, will propose $12,000. Look to the current debate over "a living wage" to see how this would work.

The book is not a casual read. It packs a great deal of information into a short space, and sometimes the numbers and programmatic interactions fly by in a blur. Murray can unexpectedly veer off to discuss subjects such as tort reform or expected future stock returns. These are topics that have consumed volumes in their own right. It is hard to do them justice in the few pages Murray devotes to them. Many of the details are designed to show that Murray has thought through all the implications of his proposal. This is a testament to his excellence as a scholar, and a treasure trove to policy wonks, but of marginal utility to the average reader.

Also, there's a general assumption that the reader shares Murray's view that the current welfare state is a failure. Consequently, the book is unlikely to persuade anyone who starts from a different premise.

Murray says he conceives of his proposal as a "thought experiment." It fulfills the role brilliantly. His solution is dubious, but if Murray can once more get us to question traditional wisdom, he will have again proven how consequential ideas can be.

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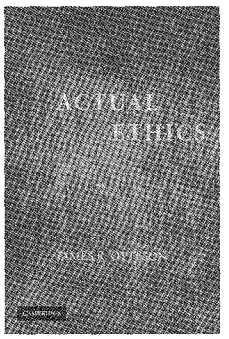
Actual Ethics

by James R. Otteson
Cambridge University Press • 2006 • 349 pages
• $75.00 hardcover; $25.99 paperback

Reviewed by Tibor R. Machan



More and more books sympathetic to classical liberalism and libertarianism are coming on the market from publishers that haven't offered such works until recently. Cambridge University Press has started to take on such works regularly.

This is important because in the contest of ideas, it matters where the ideas are published. It influences their use in classrooms, the promotion of the authors, and so forth, so when a certain line of thinking gains a forum at the more prestigious publishing houses, that can be identified as an advance. Thus James Otteson's *Actual Ethics* is a triumph, and all those who value individual liberty should rejoice.

Having said this, I should also note a small quibble, namely, with the idea that classical liberalism and liber-

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tarianism are *ethical* rather than *political* stances. It is not new, of course, to believe this. Murray Rothbard and quite a few of those who discuss the constitution of a free society suggest that this is a matter of ethics proper, not only of political theory. Yet prominent classical liberals, such as Milton Friedman and F. A. Hayek, have held that no commitment to any kind of ethics is involved in championing the free society. (I myself have argued that there is but a minimal ethical substance in such a political position.) This is supported by the idea that ethics addresses the question of how we ought to live our lives, day in and out, while politics is about how human communities are best organized.

Otteson, who has been teaching philosophy at the University of Alabama but is moving to Yeshiva University, contends that ethics is directly relevant to the politics of classical liberalism. In his own words, he is advancing "the simple and . . . inspiring vision of free and independent individuals who take no and brook no violation of personhood, who thus meet each others as equals in personhood, and who seek to provide for themselves and for those they care about a good and happy life." For him this is an ethical claim, not so much one concerned with politics or law.

Actual Ethics is a work with a unique approach, one that reminds me of John Hospers's way of philosophizing—common-sense philosophy. Otteson says he is concerned with "how you should live," yet the book is more often than not about how you should *not* live, as well as about the important notion that one needs to figure out for oneself the details of how one should live. For Otteson government's purpose is "to secure people in their lives," although this could imply a far more extensive role for law than Otteson supports—for example, universal health care. That is why the American Founders' notion that government is about securing our *rights* (to life and so on) is, I believe, more precise. But I think Otteson agrees with that position.

Otteson's achievement here is to make a persuasive case for classical liberalism based on the moral superiority of individual freedom and responsibility. With so much philosophy these days tending to support the expansion of the state, this book is a gust of fresh air.

Actual Ethics has a lot of provocative and well-executed discussion about all the problem areas that critics of the free society keep mentioning—welfare, health care, child care, poverty, education, and so forth. These are all dealt with in admirably accessible fashion, free of the kind of jargon that often mars philosophical discussions of human affairs. For example, Otteson considers various reasons for placing education in the hands of government and although his idea of inviolable personhood would render any kind of state schooling indefensible, he patiently examines most of the justifications and finds them wanting.

Each chapter ends with a long list of relevant publications that would be of great use to anyone wishing to develop some of the nuances of the questions that Otteson is exploring.

I would like to end this brief review by commending Otteson for invoking the ideas of the late Julian Simon, especially the extremely important notion that the greatest resource for making advances in our lives is the individual's initiative, the creative mind. I would also like to take exception to Otteson's calling me something of an anarchist. His list of those who are supposedly in the anarcho-capitalist school is debatable. But that debate will have to await another book. *Actual Ethics* has so much value to offer that this minor mistake can be set aside.

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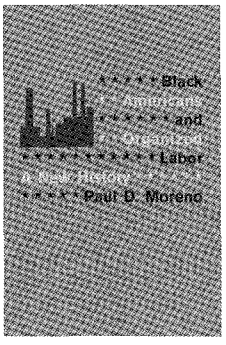
Black Americans and Organized Labor: A New History

by Paul Moreno

Louisiana State University Press • 2006 • 325 pages • $49.95

Reviewed by George C. Leef



Among the virtues of free markets is that they provide all who wish to compete the opportunity to do so. Free markets are not burdened by coercive interference that favors some groups and shuts others out. That is particularly beneficial for people who are of a religious sect, nationality, race, or other

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group that is widely disliked. Even if most people choose to discriminate against them, they can still succeed by working for or selling to those who don't share the general prejudice, or at least who will put prejudice aside in favor of good-quality work.

On the other hand, where a market is subject to government regulation, unpopular groups are often excluded or handicapped. That is because dominant groups are able to exercise their political power to pass laws that stamp out competition from outsiders.

Black Americans have suffered a great deal from official discrimination in the labor market. For example, under the Jim Crow laws enacted in southern textile-producing states, it was illegal for a mill owner to employ black workers in better-paying positions. The job of loom fixer, among others, was by law a whites-only job. Many owners would have been glad to hire or promote people for that job just on the basis of work quality, but racist politics dictated otherwise.

Labor unions have long used both legal and illegal means to secure for their members higher pay than they would be able to get in a free market. In the early years of America, virtually every labor union admitted whites only. Racist sentiments teamed up with the desire for economic advantage to produce overwhelming hostility toward any blacks who had the temerity to try to compete. In his book *Black Americans and Organized Labor*, Hillsdale College history professor Paul Moreno gives a detailed account of the one-sided battle between blacks and unions. It's a "warts and all" picture that reveals much about the ugly, coercive side of organized labor that is usually kept hidden from the public. Moreno quotes Samuel Gompers, who once ranted that "Caucasians are not going to let their standard of living be destroyed by Negroes, Chinamen, Japs, or any other." The early civil-rights leader A. Philip Randolph clearly understood what the unions were all about when he said that the American Federation of Labor was "the most wicked machine for the propagation of race prejudices in the country."

In the nineteenth and early twentieth centuries, violence was often used by white unionists against black workers and white-owned businesses that employed them. Moreno gives some revolting instances. What he labels "the bloodiest race riot in American history" took place in New York City in 1862 when white workers rioted against a tobacco-manufacturing company that had hired black workers. Hundreds were killed and injured before the riot was put down by army troops. Violence was illegal, of course, but the unionists were certain that they could get away with it.

One of the key themes in the book is that black workers and white business owners were allies against the attempts to cartelize the labor market by unions. In the post-Civil War South, Moreno writes, "industrialization could have undermined the region's racial hierarchy, but segregation forced business to conform to it. . . . Railroad owners balked at enforcing racial segregation and fought the laws in court—joining Homer Plessy, for example, in challenging the requirement of separate accommodations in New Orleans street cars." Frequently businesses that chose to employ black workers were targeted by unions with violence.

Nor was racial animosity confined to the South. In Northern states unions used their power to ensure that skilled trades remained exclusive white preserves. One favorite tactic was to get occupational-licensing laws passed, and then to use their control over apprenticeship programs to keep anyone they didn't like from learning the trade.

Eventually some unions began to soften their stance against blacks, a combination of receding racial hostility and self-interest. (The money of black union members was just as good as that of whites.) Political pressure was building for legislation to forbid racial discrimination by unions, and most union officials supported it, although there were some who opposed it and even declined to comply until forced to do so.

Unionists like to talk about what they call "labor's bitter struggle"—which is their rhetoric for efforts at establishing legally protected cartels—but the really bitter struggle was that of black (and other minority) workers to be allowed to compete freely in the labor market. Paul Moreno's book beautifully tells the story of that struggle but also makes a bigger point, namely that society must not allow interest groups to use the law as a sword to cut down competition from other people.

George Leef (georgeleef@aol.com) is book review editor of The Freeman.

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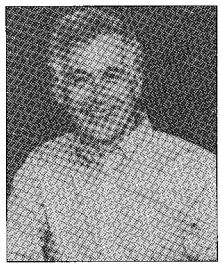
Our Skyrocketing Living Standards



BY DAVID R. HENDERSON

In the mid-1950s, when I was a young child, I would occasionally see a man walking along the street with a grapefruit-size growth in his throat. The first time I saw such a thing I gasped. My mother hushed me up and told me later that the man had a goiter. The last time I saw a goiter was in the mid-1960s. Improvements in diet, namely the addition of iodine to salt, have virtually eliminated goiters.

When my family used to drive to our summer cottage, a very basic dwelling that my grandfather built in 1921, we would stop to "eat out." I got French fries, which in Canada we called potato chips, and a Coke. Not French fries, a Coke, and a hamburger. Just French fries and a Coke. We "ate out" twice a year, once on the way to the cottage and once on the way home. No one in Canada, or in the higher-living-standard United States for that matter, would have called us "poor." My father's income was probably just at the median—he was a public-school principal in a small prairie town. Now, even many of the poor eat out at McDonald's a few times a month.

In 1960, when I was ten years old, I had two pairs of pants. In 2000, a gardener friend making no more than $15,000 a year showed me his nice clothes closet that his new bride had arranged: it contained about 20 nice shirts, five to ten suits, and the same number of nice ties. He had bought many of them at Goodwill, but isn't it interesting how you can buy even high-quality items at Goodwill?

I could easily tell dozens more stories like these. I'll bet you could too. The point is not to get you feeling sorry for me or for yourself. I think I had a pretty good life back then, at least in economic terms. In fact, that's the *point*. What many of us thought of as pretty good back then is a life that is economically far below what the vast majority of Americans have today. There has been an explosion in living standards in the United States and Canada, in most of Europe, in Japan, and in other places around the world that has brought the richest one billion people to what our counterparts 50 years ago would have considered the life of the rich.

How have we gotten here? By being fortunate enough to have been born in, or by being ambitious enough to have moved to, countries that have a fair amount of economic freedom, countries whose governments allow private property, allow citizens to keep up to 70 percent of what they earn, and usually allow contracts to be enforced.

Yet many people claim that middle-class people today have less than their parents had. In a January 5, 2004, article in *The Nation*, for example, *New York Times* columnist and Princeton University economist Paul Krugman wrote:

> According to estimates by the economists Thomas Piketty and Emmanuel Saez—confirmed by data from the Congressional Budget Office [CBO]—between 1973 and 2000 the average real income of the bottom 90 percent of American taxpayers actually fell by 7 percent.

What should we make of this claim?

Krugman can't be right that the CBO confirmed the data from Piketty and Saez for the simple reason that CBO estimates go back only to 1979. More important, the CBO data show that between 1979 and 2000, average after-tax income in each quintile (fifth) of the household-income distribution rose. For the lowest quintile, it rose from $13,500 to $14,600 (all numbers in this sentence are in 2003 dollars); for the second-lowest quintile, it rose from $27,300 to $30,900; for the middle

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quintile, it rose from $38,900 to $44,700; for the second-highest quintile, it rose from $50,900 to $63,300; and for the top quintile, it rose from $89,700 to $151,100. So for Krugman's claim to hold true, average income in the bottom 90 percent would have had to fall drastically between 1973 and 1979 to more than offset the later increase. Economist Alan Reynolds, using U.S. Census data, has shown that this didn't happen. In short, people at all income levels were better off in 2000 than in 1979.

Reynolds, going back to the source—the Piketty-Saez data that Krugman and many others cite—points out just how implausible their data are as a measure of family income. Piketty and Saez write that in 2000, "the median income, as well as the average income for the bottom 90% of tax units is quite low, around $25,000." Note the use of the term "tax units." "Tax units" are not the same as families. In my family, for example, we have two tax units: my wife and I file our taxes jointly and our daughter files on her own. But that has not stopped people, including Krugman, from writing as if "tax unit" and "family" are synonymous. If they were the same, then 45 percent of families (half of 90 percent) would have had to make less than $25,000 in 2000. But U.S. Census data show that for 2000, only 27.5 percent of households made less than $25,000 in 2003 dollars. Granted that households are not the same as families either, but households are probably more like families than "tax units" are. The problem stems from the equation of "tax unit" with family.

In short, people at all income levels were better off in 2000 than in 1979.

If your eyes glaze over when reading comparisons of income numbers, there's another way to see how our living standards have changed. Look at what average people have. Start with what's in the household. In their book, *Myths of Rich and Poor*, W. Michael Cox and Richard Alm show that a household officially counted as poor in 1994 did better in certain important ways than the average household in 1971. For example, 71.7 percent of poor households in 1994 had washing machines versus 71.3 percent of all households in 1971. Poor households in 1994 *did better than the average 1971 household* on most items. The figures were as follows: clothes dryers, 50.2 percent for poor households in 1994 versus 44.5 percent for all households in 1971; refrigerators, 97.9 percent vs. 83.3 percent; stoves, 97.7 percent vs. 87 percent; microwaves, 60.0 percent vs. less than 1.0 percent; VCRs, 59.7 percent vs. 0 percent; color TVs, 92.5 percent vs. 43.3 percent; air conditioners, 49.6 percent vs. 31.8 percent; dishwashers, 19.6 percent vs. 18.8 percent; personal computers, 7.4 percent vs. 0 percent. The only items on which poor households in 1994 did worse than the average 1971 household were freezers (28.6 percent vs. 32.2 percent), telephones (76.7 percent vs. 93.0 percent), and cars (71.8 percent vs. 79.5 percent).

When I cited these data to a colleague of mine he retorted, "Of course, but look at how much cheaper those items are today." Exactly. Our system of relatively free markets has given entrepreneurs and inventors an incentive to cut costs, improve quality, and innovate. That's how capitalism takes what was a luxury for the rich and makes it an everyday item for the poor. As the famous economist Joseph Schumpeter wrote back in 1942:

> Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.

The only things I can think of that have arguably gotten worse are our protection from crime and the quality of education our children receive in schools. Interestingly, both of those are largely provided by government. Hmmm.

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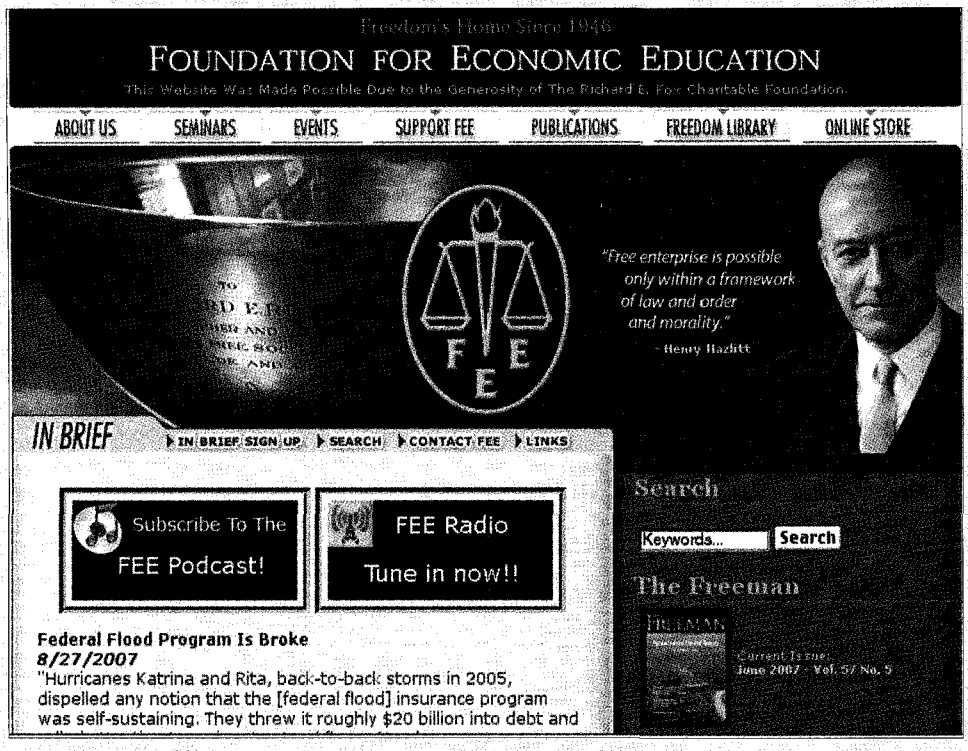
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"The Great Depression in the United States, far from being a sign of the inherent instability of the private enterprise system, is a testament to how much harm can be done by mistakes on the part of a few men when they wield vast power over the monetary system of a country."

—Milton Friedman (1912–2006), *Capitalism and Freedom*

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